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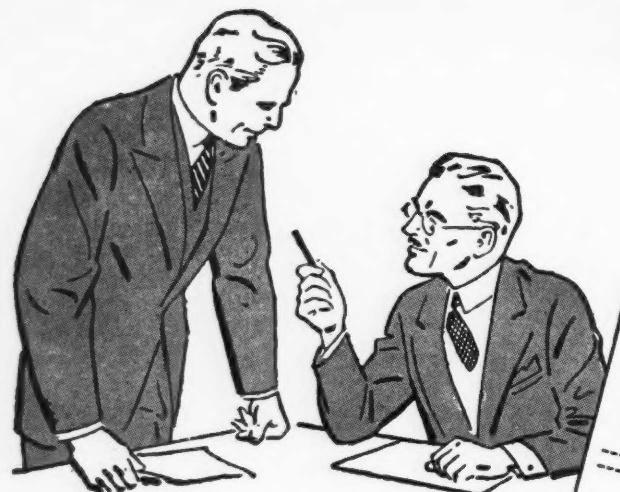

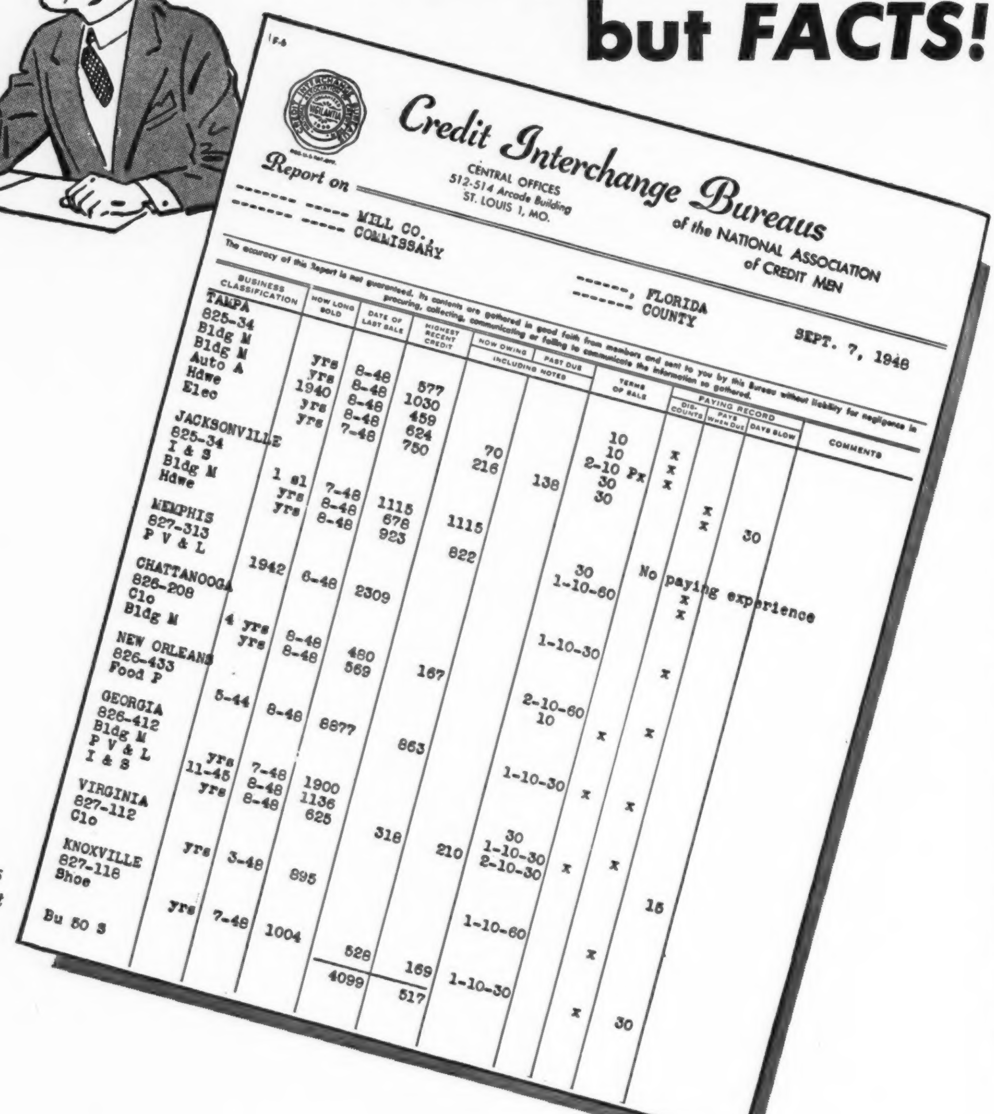

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AND FINANCIAL MANAGEMENT

Contents for September, 1948

* Reprinted from addresses delivered at the 52nd Annual Credit Congress

Official Publication of the National Association of Credit Men

One Park Avenue, New York 16, N. Y. | 1309 Noble St., Philadelphia 23, Pa.

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ESTABLISHED 1898 | VOLUME 50, No. 9

Published on the first of each month by the National Association of Credit Men, 1309 Noble Street, Philadelphia 23, Pennsylvania. Entered as second class matter December 22, 1933, at the Post Office at Philadelphia, Pa., under the act of March 3, 1879. Subscription price $3.00 per year, 25¢ per copy; Canada, $3.50; all other countries, $4.00 postpaid.

Do Degrees Help Teachers to Teach?

Once again this month the school bells will call millions of young people to our schools, colleges and universities. A short time ago it was not unusual for youngsters to trudge miles through the wintry snow and ice to reach the little red school house. Today in most of the rural communities, the children will be called for and driven home by modern school bus. In most cases they will meet in a modern, well-ventilated, well-lighted, fireproof building. It will be adequately heated in the cold days of winter. The equipment will be of the best. Physically the modern class room and the means of reaching it are a great improvement over the school of grandma's and grandpa's day.

Equally important, however, is the teaching in our schools, colleges, and universities. Can it truthfully be said that all of the present-day ideas in this respect represent progress?

Is one of our educational weaknesses the fact that we are living in an age of degree-consciousness? Is our exacting method of evaluating a teacher's capacity sound? In the usual high school, teachers are required to have a Bachelor's degree. A premium or bonus is paid when they have a Master's or Doctor's degree. Even educators of proven ability must devote their summer vacations to work towards a degree.

Have we gone "degree-minded"? Isn't it carried to the point of the ridiculous? Aren't the real qualifications of good teachers much more than the mere possession of a piece of parchment?

We used to look first to the character of the schoolmaster or schoolmistress. We knew they were an ideal to children and we wanted our young people to have a worthy ideal. No one was more respected in a community than the teacher. Next we were interested in how capably and thoroughly they could impart what knowledge they had to their students or in other words, how well they could teach. Third, we made sure the teacher had a thorough knowledge of what he or she was supposed to teach but we knew such knowledge was not necessarily assured by the possession of degrees. We didn't insist on a grammar-grades teacher having a Master's degree because we knew it wasn't necessary or important.

School boards and college trustees might well evaluate anew the qualification basis of teachers and professors.

HENRY H. HEIMANN,
EXECUTIVE MANAGER

The Home of Dauntless Spirits

IN THE FIGHT FOR POLITICAL FREEDOM

Captain Nicholas Gilman, Jr.

COURIERS on horseback galloped throughout the countryside bearing the news when the Declaration of Independence was adopted. In Exeter, New Hampshire, the fateful message was dispatched to Colonel Nicholas Gilman, whose son, young John Taylor Gilman, then read it in the public square while the townspeople listened "with unutterable emotion."

The house where the message was delivered was built in 1721 by Nathaniel Ladd, a member of one of Exeter's more prominent families who were among the first settlers. Another Nathaniel Ladd sounded the trumpet that signaled an early revolt against the royal governor and was the only one of the rebels crafty enough to escape trial. One eccentric member of the family kept a coffin in the house in case of sudden demise and invented a pair of wings which he maintained would enable him to "cleave the air like a bird" until he experimented from an upstairs window.

The Major General John Sullivan Room

The Tap Room in the old kitchen

In 1747 the house was bought by Daniel Gilman and for many years was owned by members of the Gilman family who were said to be as numerous as the sands on the seashore and who played an influential role in affairs of state and nation. One of the most distinguished was Colonel Nicholas Gilman who as state financier earned the title of "the brains of the Revolution in New Hampshire." Important meetings were held, state secrets discussed and the Battle of Bennington planned in the room in his house which served as the treasury. Another room was used as the jail where debtors were chained to an iron ring which may still be seen.

Nicholas' son, John Taylor Gilman, proved his patriotism at an early age by marching off to Cambridge with a band of volunteers the morning after the Battle of Lexington. He succeeded his father as state treasurer and served a number of terms as governor. At the alarm of Portsmouth in 1814 he took personal command of a large detachment of militia. His brother, Captain Nicholas Gilman, Jr. who was on Washington's staff, participated in many important battles and later served as delegate to the Constitutional Convention and as Senator from New Hampshire.

The Ladd-Gilman house is now owned by the New Hampshire Society of the Cincinnati and is commonly known as Cincinnati Memorial Hall.

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Credit Management for Profit

Part Three: Developing the Customer

by J. L. WOOD
Assistant Treasurer
JOHNS-MANVILLE CORPORATION
New York

Next to developing the sales-credit partnership comes the developing of the customer. The credit man's record of accomplishment in servicing a maximum volume of sales with reasonable losses is a matter of record, but his achievements in building volume, guiding his customers through the financial labyrinth and saving them from financial demise are inscribed largely only in the grateful hearts and minds of the customers. Nevertheless they are of considerable proportions.

Rebuilding a Business

In the summer of 1932, I visited an important customer in the south whose account had been sliding slowly but inexorably farther and farther in the arrears. It was a sole proprietorship whose principal, while an able sales manager, was much too amiable. He was affable and agreeable to his customers who didn't pay, and indulgent to his family. He had set up in his books a personal account for his withdrawals which he had established at the nominal figure of $300 a month. However, examination of this account disclosed the fact that, during the preceding year, he had not once drawn the stipulated amount. Instead, he had withdrawn sums from time to time in varying amounts totalling $14,000 and in a year in which he had a loss of $12,000! A fur coat for his wife and a new car for the girls were two of the expenditures charged against the business, while the butcher and the baker and jeweler all dipped into the gravy bowl.

The foundations of the business were riddled and there was imminent danger of collapse unless the twin termites, operating losses and cash withdrawals, could be exterminated.

Our first act was to put the proprietor on a rigid "salary" of $200 per month and to eliminate the personal account. Of course, it was his business to do with as he pleased but he realized that if the trend were not reversed immediately there would be nothing left to withdraw. He welcomed, too, the imposition of restraints by outside advice as being more effective on his family.

We then went over his operating expense in minute detail, paring and shaving it to the quick. We brought in one of the daughters to keep the books—and Pop—in line. We froze our substantial account, arranging for payment of 10% in excess of subsequent deliveries to effect a gradual reduction.

The business premises were leased although a warehouse with railroad siding had been purchased a couple of years previously. Arrangements were, therefore, made to move the business to the owned premises on expiration of the lease. Sales and expenses were carefully budgeted to show a small profit on curtailed sales. Provision was made for the preparation of monthly operating statements to be reviewed against the budget by both the proprietor and me, and after a short but intensive pep talk I departed.

The results of the first month's budgeted operations showed a nominal loss; the second month touched the break-even point, and the third month broke through the red haze into the black of a small profit.

Immediately, however, the proprietor, rising from the depths of discouragement, waxed enthusiastic and was all for increasing the overhead to push what he considered a turn in the market. We had to dampen his fiery enthusiasm and insist upon caution.

In the ensuing months of spotty business, while the trend was definitely favorable, there were periods in which the red ink would reappear briefly, and our proprietor's mercurial spirit would rise to the heights and plumb the depths with the shifting color scheme. During this period we were busily engaged in alternate inspirational exhortations and cautionary wet-blanketing.

It required more than three years to effect the complete rehabilitation of the business, but based upon the lessons learned in the budgeting and control of expenses, it has since operated at substantial and consistent profits. And, to point the shining moral, it remains an important, and unswervingly loyal customer.

May Take Considerable Time

The attainment of the pinnacle of gratification in the salvaging of the strayed is sometimes long deferred. There was the case of the mid-western contracting business which fell upon parlous times. The first shadows of the coming events fell, as always, across the accounts receivable ledger. Payments drifted from discounting to net due date, to thirty days past due, to sixty days. The inevitable conference lasted well into the night and, when all the figures had been examined, weighed and sorted, even the principals were constrained to admit that the business was insolvent.

To the Financial Consultant, however, mere insolvency is Alpha rather than Omega; it is not neces-

sarily the end but the beginning—a place from which to take off. To the diagnosis of the ailment, the remedy.

The diagnosis disclosed compound fracture of the gross profit, fatty degeneration of the overhead, pernicious competition and anemia of the bank account. The fracture of the gross profit was a direct complication of the perniciousness of the competition and it, in turn, produced the anemia of the cash. The overhead condition was due principally to enlargement of the cranium. Most of the troubles arose from the fact that a large competitor, apparently bent upon capturing the entire market and eliminating competition, was quoting deeply-cut prices and our friends were vigorously meeting them, despite continued operating losses. The two owners of the business were continuing to be mahogany desk executives although both were experienced and capable salesmen.

Considerable time and eloquence were spent in convincing the owners that the competitor's ruinous prices could not and need not necessarily be met; that it was time for super-salesmanship in offsetting price appeal with the emphasis on better quality and workmanship. And that it was a time for the principals to close up the mahogany desks and get in there selling, thus saving the commissions on their sales.

There was no money to meet payrolls and operating expenses and for the purchase of material. There was some good machinery and equipment on hand whose depreciated value was about half the additional cash required.

The account was an important outlet; representation in the market was vital. To permit the account to fade from the scene meant the turning over of the entire market to a competitor, strongly entrenched. We loaned the necessary cash, taking as partial security a chattel mortgage on the equipment. The principals rubbed the shine off the seats of their tweeds and went to work. They worked long hours, using all their powers of salesmanship, which were considerable. They began to click; their quality story began to tell; the earnings figures edged into the black; the competitor began to tire of taking business at a loss while his rival continued to do business at the old stand, and he returned to sanity.

Five years later came that pinnacle of gratification—the erstwhile underdog bought out his predatory competitor!

One Tool Is Seldom Used

There is one amazingly versatile tool at the Credit Man's disposal in the development of the customer which, again amazingly, is seldom utilized or, in fact, even thought of, although it is so simple and elemental as to speak for itself. We are too prone, it appears, to think of credit only in terms of goods and services. But the simplest form of credit is cash. This is decidedly not to say that the commercial credit man should attempt to usurp the functions of the bank. That would be folly of the highest order. In the first place, he couldn't do it; in the second place, if he should try to do it, what would happen to him shouldn't happen to a dachshund. At the same time, however, if he is backed by enlightened management, he can occasionally and judiciously extend credit in the form of cash to promote profits.

I say 'enlightened management'

THE BUSINESS EXTENSION DEPARTMENT

I have spoken of him generally as the 'Credit Man,' occasionally terming him a 'Financial Consultant.' I have used the title of Credit Man not because I deem it descriptive but merely because it is familiar. Indeed, my occasional use of Financial Consultant was deliberate to point a contrast. I think, in fact, the credit profession has failed to lift itself to a higher stratum of management, partly at least, because in its development and expansion it has clung to old labels. The package has been vastly improved, the content refined with the addition of many new and potent ingredients, but the label is redolent of lavender festooned with very old lace.

Credit Man. Iceman. Coalman. They all seem to have one common connotation—that of delivering something. The Iceman delivers ice, the Coalman, coal, and the Credit Man dispenses credit. But, as we have seen, he does far more than that; he is an important cog in the profit machine.

Credit Department—a place where the Credit Man does his dispensing. That's what it seems to say, yet it is the center of financial service and business extension. Why, then, not call it the 'Business Extension Department' and its advisors 'Financial Consultants?'

The first benefit from this move would be an uplift in morale and a permanent consciousness of the role of profit building. Prestige with customers would be greatly enhanced, and goodwill fostered.

It is not too difficult to visualize a distinct difference in a customer's reception of a collection letter signed 'Financial Consultant, Business Extension Department' and one whose signature reads 'Credit Man' or 'Credit Department.' The former says, subtly, 'We value your business and this department is organized to help it grow. I'm here to aid you with financial advice.' The latter says, 'We're on the job to see that you don't take advantage of us. Watch your step, chum.'

The recognition of the credit organization as a part of the profit-building structure will make for better co-ordination with the sales promotion departments and foster a mutual understanding of their interdependence in realizing the profit aim. The credit profession cannot lift itself up to the higher planes of management by its bootstraps. Nor can it do so by a mere change of labels. It can and should, however, get its light out from under a bushel and let it so shine before top management that its indispensability to better profit will be clearly recognized through *Credit Management for Profit.*

because, all too often, top management will consider it symptomatic of the first stages of paresis if the credit man seeks authority to use cash as credit. It fails to recognize the incongruity of permitting the credit man to extend perhaps millions of dollars of credit in goods, which assuredly have a cash complement, while rocking upon its heels at the thought of a loan of five or ten thousand dollars for a sound and legitimate profit-producing purpose. What, I rise to inquire, is so sacrosanct about cash? And why, in the name of profit, shouldn't it be used—judiciously, I repeat—to add to that profit? Why, indeed, should not any—and every—ethical device be employed to augment profit?

The loan to the mid-western contractor who finally gobbled up his formidable competitor is a genuine case in point. It did not usurp the banker's function, for no banker could have touched it with *two* ten-foot poles. Yet it was the only way in which the business could have been saved and the creditor's competitive position maintained in the market.

Another Example

A successful and growing business in the East, without an oversupply of capital, had been competing with a business on the other side of town which had been operated for several years by a creditors' committee. The committee was tired and anxious to recover upon the creditor's long-frozen accounts. The owners of the competing business saw an opportunity to eliminate a competitor and, at the same time, expand their business through the acquisition of plant, equipment and inventory at a very favorable price. They approached the committee who were eager to listen and a tentative price, below replacement values, was agreed upon. The horsefly in the goose-grease was a little matter of $15,000 which the prospective purchasers didn't have. They couldn't get it from their bank because it was not a banker's loan and they would need about two years in which to repay it.

The undaunted venturers came to their major source of supply. We listened, looked at figures and came up with a check for $15,000. In the two years over which the loan was repaid, sales to the expanded business doubled. Cash producing added profit!

Establishing a New Customer

Cash is a handy little widget to have around the house to aid in the establishment of a new customer in a market devoid of representation. While it has been employed in several such situations, one typical case will prove the point.

The market had a good potential but the sales department's all-out effort had failed to produce an adequate outlet. Well, what about an experienced man employed by a successful business elsewhere? He was found in another state. His employer was willing to part with him and glad of his opportunity to strike out for himself. Again, however, the haunting spectre of lack of sufficient capital pervaded the scene. He had $1,500; he needed $6,500. He was a good man, with a fine record in managing a similar business. Would he do as well on his own? We thought so and put up the missing five thousand.

This is the last of this series. The author will include some of these articles in a forthcoming book which will be reviewed in this publication as soon as it is published.

At the end of his first quarter, his initial capital of $1,500 had shrunk to $700 but he was doing an excellent job at holding down his overhead and he was making unmistakable progress in developing a hitherto untouched field. He paid off the $5,000 in two years and at the end of his fourth year he proudly displayed a balance sheet showing a net worth of $30,000. Once again a loan, which no banker could make served to build added sales and profits.

Other types of loans, which are outside of ordinary banking scope either because of their purpose or the time required for repayment or both, and which may serve the profit aim, are those to permit an expansion of operations, to provide added or more attractive quarters and for certain types of sales promotional and advertising helps.

It cannot be emphasized too strongly that, if the loan fits banking patterns and the source is available, the supplier shouldn't muscle in. It is, perhaps, unnecessary to add that each situation must be analyzed thoroughly and judged from the twin viewpoints of safety and its potential for added profit.

Other Accomplishments

All of the Credit Man's accomplishments in developing the customer are not, naturally, confined to the resuscitation of enfeebled enterprises or in the utilization of cash to establish and aid growing businesses. In fact, his greatest measure of success is achieved in his constant role of advisor and consultant. In addition to his industry and individual financial analyses and the dissemination of the successful sales and merchandising procedures of others, his help and advice in the specific financial problems of his customer is highly valuable.

He shows the customer, for example, how to age his accounts receivable monthly by due dates, providing a visual analysis as an aid in concentrating his efforts on the older and larger accounts and a day-by-day record of his collection accomplishments. He provides the customer with a series of tested collection letters tailored to his own field and shows him how to set up a simple but effective system of collection follow-up. And, when requested, he will aid in the collection of an account. He shows friend customer what credit information he should have on his accounts and how to obtain it at minimum cost, and he gives the benefit of his experience in how to analyze the information.

Familiar, as he is, with almost every phase of his company's operations, he is the one representative with whom the customer can discuss all his plans and problems. As the Parisian chimney-sweep, Chico, in Seventh Heaven put it, he is a "very remarkable fellow."

Diagnosis in Business

Symptoms of Disease Are Shown in Financial Statements

by GUSTAV C. KLIPPEL
Credit Manager
VAN CAMP HARDWARE AND IRON COMPANY
Indianapolis

Not so many months ago I was invited to speak to a group of Association members in Cleveland. During the course of the dinner preceding the meeting, I made the statement (in fact I have made this statement so many times that it perhaps has become an 'infamous' statement of Klippel's) that in all of my experiences I have never studied any failure case that came to my attention, that I did not find in the balance sheets of two or three years before failure, definite evidence of a trend or condition which, if continued, would undoubtedly lead to failure. In other words, I am convinced (and no one has ever shown me the exception) that proper analysis of the balance sheet years before the failure will show clear evidence of business diseases which, if not doctored and eliminated, will cause the business to die.

A Case in Point

One of the Cleveland members made the remark that they had a big case up there that nobody could have expected would be such a failure. Every creditor's account had been discounted regularly, and there had not been one delinquent comment on the Credit Interchange Reports. I obtained the name of the concern, and upon my return to my office was successful in securing from the Agency year-end balance sheets and operating figures for June 30, 1945, June 30, 1946, December 31, 1946 (Interim statement) and June 30, 1947.

These figures were submitted to my class at the University last semester for analysis. Discussion of each year's figures was completed before the next year's figures were presented for analysis and comparison.

The students were all very critical of the credit position as of June 30, 1945. Upon comparing the ratios for that year with the averages of the industry, they commented on the satisfactory current ratio; turnover of tangible net worth, working capital and inventory; inventory to net working capital. But they were much concerned about the extremely low net profit ratios, and the fact that nearly all the net profits were paid out in dividends even though the ratios of current debt to tangible net worth and current debt to inventory were very unfavorable.

One of the students who, by the way, has turned out to be quite a keen analyst, made the comment that he would expect the management of this company to succumb to the all too common human desire to make more profits—to expand their outlets and inventories, procure additional financing, all in the endeavor to do a lot more business in the hope that the profit figures would be much more favorable next year. He could foresee the threat of overexpansion, overtrading and an even greater debt burden which could not be supported particularly in view of the fact that the turnover ratios were slightly high at June 30, 1945, and Current Debt ratios were also unfavorable.

Fears Borne Out

Just how keen he was is evident from the analysis of trends and comparison with industry averages when June 30, 1946, figures were presented:

Cash down 60%.
Inventory up 200%.
Securities down 90%.
Current Debt up 200%.
The Current Ratio had declined 50%.
Net Profits Ratios down 55%.
Inventory to Net Working Capital up 280%.
Net Sales to Inventory down 72%.
New Bank Debt of $1,300,000.00 had been added.

The company's effort to expand operations, increase Sales and Profits had failed miserably. What their management deemed to be necessary preliminary steps had dragged them much further into the mire, *but* they paid the regular heavy dividend *out of surplus.*

Every student in the class decided, after they discussed the trends among themselves, that the management was evidently not of the type that they would have confidence in, and that the situation was so dreadfully unbalanced that they would close the credit line even though the payment record was still "discount" throughout the trade.

Laughable Situation

The students laughed out loud when given the figures for December 31, 1946, because the trend of all ratios showed such a ridiculously unbalanced condition (the Bank Loan was now up to $2,180,000.00) that failure or a reorganization and write-down of the capital structure was inevitable. All rejected this company as absolutely unacceptable as a credit risk at this point, December 31, 1946 even though the Credit Interchange Report still showed "discount" in every market. (Thanks to the Banks.) But the current liabilities

at that date were $3,157,012.00, the Common Stock equity wiped out, and by June 30, 1947, the Preferred Stock was impaired some $25,000.00.

And my meeting in Cleveland was in November 1947.

And Another

Within the past few months a fairly large manufacturing concern in Indianapolis filed a voluntary petition in bankruptcy, listing on their schedules creditors' claims totaling $266,000.00. With no knowledge of whose figures they were analyzing, my students examined the balance sheet for December 31, 1945, found definite signs of overtrading on strained capital investment, noted that all profits were withdrawn, and that the fixed assets to tangible net worth ratio was too high to be at all healthy. The ratio of sales to working capital was *54.44 times.* A highly vulnerable condition, they decreed, and nearly all of them decided that the credit risk was too great for them to approve a credit line.

During the year 1946 this company expanded its plant, increased its inventory, borrowed $174,000.00 from banks and tripled its merchandise creditors' debt. The December 31, 1946, balance sheet showed a really fantastic condition. Every ratio actually ridiculous. An operation loss of $86,800.00, resulting in a reduction of tangible net worth from $105,472.00 to $8,681.00 and that with fixed assets of $136,356.00!

Laughable, yes, but shown on the balance sheet at December 31, 1946. When bankruptcy occurred in April, 1948, creditor's claims totalling $266,000.00 were filed. Believe me when I tell you that I have studied literally hundreds of cases so similar to these two that they could well have been brothers and sisters.

"Save a Life"

That is why I say that to review and review the proper methods and technique of analysis is time well spent. That is why I wonder sometimes if we are fooling anybody when we talk about the credit profession. Of course, we have hundreds who are professional in their credit practice, who do their job well with their eyes open, and who continually strive to elevate the standard of practice to the heights where it belongs.

Would you feel perfectly satisfied today if, recognizing that your very life was at stake, you had consulted your physician yesterday and asked him to give you a thorough physical examination, and he had looked at your tongue, asked what you had been eating and then told you that you were "sound as a dollar" and would live to be 100? You have read daily of the deaths of acquaintances and friends, rich men and poor men, celebrated men and common men, of all manner of illnesses from heart and blood conditions, tumors, T. B., cancer, and so many things that only by a really scientific study and analysis in the early stages could be determined in time to "save a life."

Should we not make a really professional examination of business, diagnose the ills, explain the condition, prescribe a remedy and "save a life"—or perhaps I should say "save a loss"? We are physicians of business, and we have an obligation to our employer to do more than look at the tongue, find out the history of life of management, and pronounce it "sound as a dollar." We must look beneath the skin, apply the X-ray and observe the functioning of the various organs and the delicate balance that must be maintained.

Sales Analysis Valuable

The income from sales pays bills. The *amount* of income from sales compared to the amount of bills payable determines the manner of payment. There are, of course, other factors, but as a general principle to apply as a preliminary examination, proper sales analysis is valuable routine. A hardware dealer doing $60,000.00 volume of sales annually, buying his merchandise on 60 day terms, receives income from sales, for the payment of merchandise obligations, $60,000 $\div 6 \times 70\%$ or $7000.00. If his balance sheet shows obligations of $7000.00, we would expect his payment record to show "when due"; or if he owes $14000.00, we would expect his record to be "60 days slow".

Our Credit Interchange report, then, is obtained to confirm the results of our analysis, and failing to confirm, signals that further examination as to the accuracy of the figures on the balance sheet is necessary. We must recognize that temporary fluctuations due to low and high periods of sales volume (January and February low—May and June high) may cause brief distortions, but the average payment record should agree with the determinations of our analysis. Adjustments must be made for such things as an excess of cash or a heavy bank debt maturing, but that is a simple matter. We have taken the blood-pressure of the subject.

Comparative Statements

The financial performance of any business enterprise is recorded in the balance sheet, and a study of it, through the relationship of various items in it with others, is practical but not sufficiently revealing to permit of any satisfactory determination as to the continued health of the enterprise. Comparative balance sheets and study of the trend of relationships between like items reveals much more about the ability of management and to a degree indicates the future prospects of the business and also suggests where the policies of management must be changed if very unsatisfactory results and frequently disaster are to be avoided.

To evaluate the seriousness of distortions, or to weigh these reflections on management, a comparison of trends of the ratios should be made with a figure which is accepted as a standard of measurement preferably with the averages of the industry. As an example, let us assume that in analyzing the figures of one of our customers we found that whereas in 1937 a 4% net profit was realized on sales, in 1938 there was a 1% loss. That in itself would indicate an unfavorable trend, but if the industry averages showed a trend from 4% net profit to 2% loss our customer's record would be quite favorable.

A study of mortality in the field

of business enterprise, the life-span, happiness, prosperity, hardships and sorrowful failure of the millions of cases that are available for study, gives ample proof of the reliability of certain maxims established to guide us in our analysis procedure. A scientific examination of business figures by the application of generally accepted tests is the highly professional method of analysis which enables one to accurately anticipate the future of the business enterprise, and recognize the hazardous effects of weak management and the vulnerable position of the subject company.

There are naturally as many possible ratios as there are combinations of each item or group of items on the balance sheet and operating statement with each of the other items. Remembering, however, that we should have some figure which is accepted as a standard of measurement in order that we can properly evaluate the ratio trends, we must select such ratios as permit of this comparison. I use the 14 Foulke ratios so that I will have the annual averages compiled and distributed by Dun & Bradstreet for comparison purposes. In addition, I naturally keep in mind the few established maxims which guide my thinking during the analysis.

As the physician proceeds through the various tests to determine the health of his patient, so I proceed in my effort to determine the health of my customer's business.

Current Ratios

We all remember not so many years ago when credit men were pleased if the current ratio was 2 to 1; better pleased if it was 3 to 1, and would jump to accept the prospect as a customer if the current assets were as much as 5 times current liabilities. This "test" was something new, really good stuff, and the rapid acceptance of this single comparison blinded all too many to the fact that, in different types of business, with a different set of accompanying figures, a current ratio of 5 might be much less satisfactory than a ratio of 1½ in other cases. The current ratio is, at best, a generality, and, while it has value, does not have a great deal of significance unless weighed in the light of other ratios. Current ratios change over night as business enterprises move through the seasons, buy merchandise, increase inventory and debt, sell merchandise, expand receivables, convert them into cash and retire payables.

The trend of the current ratio from year to year may be indicative of the changes that are taking place in other ratios as, after all, it is some evidence of the ability of a concern to meet its current obligations, and downward trend in the ratio should prompt the analyst to seek the reason for the condition.

We have taken the blood-count of the subject which perhaps indicates that we must look deeper to determine the cause for the condition.

Capital Insufficiency

The ratio of current liabilities to tangible net worth indicates the relationship between creditors' funds temporarily at the risk of the business, and the permanently invested funds of the owners. As creditor liabilities expand, the concern becomes more and more dependent upon the attitude of creditors and, since invested funds serve to guarantee liquidation of creditor liabilities, the security of creditors decreases as this ratio increases. At no time should current liabilities be greater than 75% of the tangible net worth, and I personally much prefer that the ratio be closer to 65%. The analyst should become more wary as this ratio increases from period to period, and should be much concerned if it exceeds 75%.

We could well say, therefore, that we are diagnosing for insufficient capital, just as a physician diagnoses for brain tumor by testing the reflexes.

Space does not permit me to cover but briefly the significance of the various ratios. Most of it is in the nature of review to you anyway, but for the sake of my story, a brief discussion must be given to each of them.

Other Ratios

The ratio of funded debt to tangible net worth measures the relation that the long-term creditors' investment bears to the proprietary investment. The ratio of funded debt to net working capital measures the working capital supplied by long term borrowing.

The analyst must not overlook

(*Continued on Page 30*)

BE PREPARED FOR FIRE!

National Fire Prevention Week, October 3 to 9

1. KNOW WHERE THE NEAREST FIRE BOX IS.
   Many buildings were destroyed by fire because nobody knew where to turn in the alarm.
2. LEARN HOW TO OPERATE FIRE EXTINGUISHERS.
   Prompt use of fire extinguishers and other emergency equipment put out 60 per cent of all fires, fire protection experts say.
3. CONDUCT FREQUENT FIRE DRILLS.
   It's good insurance to teach your employees what to do when a fire breaks out. In industrial plants this is a "must."
4. RECOGNIZE AND REMOVE FIRE HAZARDS.
   Some of the most dangerous fire hazards are the most easily removed. Be on the lookout for oily rags, rubbish accumulations, frayed wires, improper fuses, faulty furnace pipes and discarded matches.
5. BE ON THE ALERT FOR FIRE.
   Fire strikes when you least expect it. All blazes are small at the start. More can be done in the first five minutes to fight fire than in the next five hours.

The Easiest Way Is Best

Two Wire Spindles Go Modern

by C. V. COX
Credit Manager
A. E. STALEY MANUFACTURING COMPANY
Decatur, Illinois

In looking back over the years it is interesting to note the evolution in ledger accounting theories and practices and the changes in the forms applicable to those times.

Not many years ago, in the days of hand-written ledgers, a bound book ledger with the pages consecutively numbered was required in all public records. This was covered by statute in many states and it was only through test cases in the courts that loose-leaf ledgers were made legal.

This decision merely gave the machine accounting industry the "Go" sign—the road was steep—big business and smaller business had patterned their accounting practices along the same line although they were not bound by statute. However, in time the semi-loose leaf form began to be accepted. This was a binder or tray from which the pages could be taken and which could be reinserted and locked in place. From this point finally came the loose-leaf ledger form. Naturally there were many arguments about misplacing the ledger card and the risk in using anything which seemed so loose at the time.

There was one individual who didn't follow the crowd—the little country storekeeper. He had his own system—two wire spindles—one for accounts receivable—the other for accounts payable.

On October 1, 1947, we at Staleys applied the modern version of the country storekeeper's system to our accounts receivable. There were many reasons for making the change; principally they were, the need for basic data immediately accessible, quicker application of customers' invoices to their accounts and greater flexibility between the jobs involved.

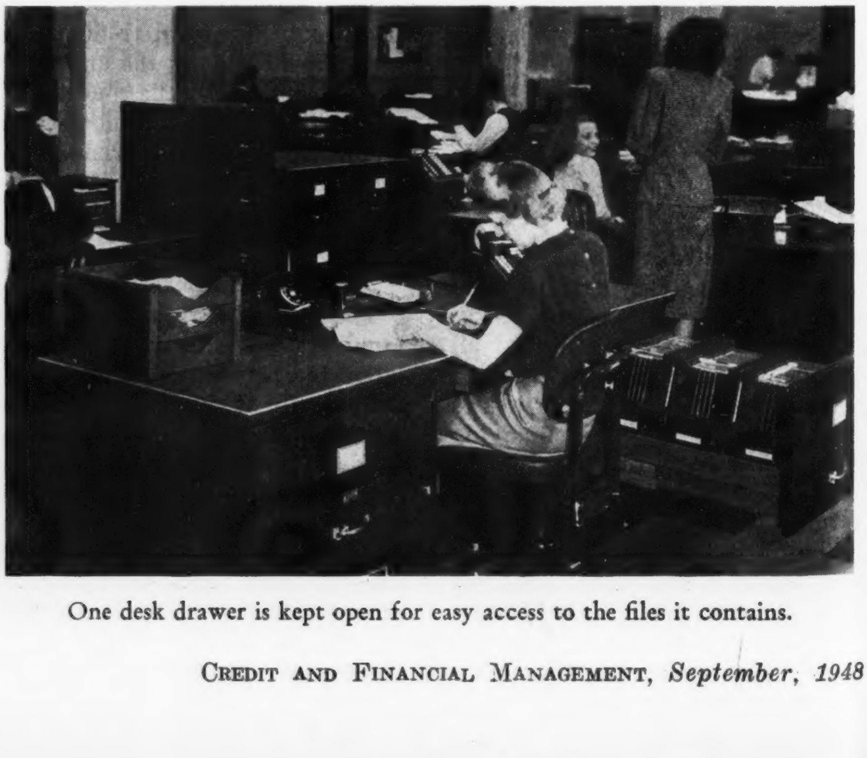
To accomplish this we designed a customer's credit card 8 x 8½ inches. This card has such data as customer's name and address, kind of business, date account opened, headquarters (if it is a branch), trade styles used, banks used, paying experience, Dun & Bradstreet rating, credit limit, and adequate space for special notations.

Our new card differs from a ledger card in that there are no postings applied and thus it has an indefinite life. This has eliminated the necessity of heading a new ledger card because the old one had become filled with postings.

These cards are filed in Diebold "V-Line" trays with features peculiarly suited to this type of operation. The trays in turn are housed in Remington Rand insulated ledger desks. The desks are thoroughly insulated and weigh about 900 pounds each. At the end of the day the accounts are placed in safe keeping by simply closing and locking the drawers. Copies of invoices, credit memos, journal entries, cash disbursements and other entries for each particular customer are placed just in front of the customer's card. This is the customer's account—the sum total of these charges and credits is the customer's balance which would ordinarily show on a posted ledger card.

In designing the customer's credit card we cut the upper right hand corner off on a diagonal bias. This permits the items comprising the accounts to show and eliminates time previously required to check accounts in balance when taking a balance at the end of the month.

Our accounts receivable are kept in geographical order by states and principal cities and alphabetically by customer in each geographical division. These geographical files are divided into three groups and the three desks are "manned" by Rhea Held, Katherine Russell, and



One desk drawer is kept open for easy access to the files it contains.

Betty Sablotny. In addition to her section of the ledger Miss Held keeps the controls for all entries into the ledger and is responsible for reconciling the accounts receivable with the general ledger.

Each Has Her Job

Miss Russell assists Miss Held, and in addition to her section passes orders against customer's accounts and prepares cash receipts from the cashier's division for application to the accounts.

Miss Sablotny makes the necessary additions and controls of customer's invoices received from the order-billing department and files "paid" billing in addition to handling her particular portion of the accounts receivable.

Unfortunately some companies like some people have a tendency to forget to pay for their purchases. So that we may help them to remember a portion of Miss Margaret Armstrong's and Mrs. Marye Meyers' work is to prepare statements of past-due invoices. Again the cut corner saves time as they work only with active accounts. Copies of statements are sent to the territory salesmen and to the brokers as indicated on the particular unpaid invoices. Since the accounts are in geographical order each representative gets copies of statements of his particular accounts all at one time rather than a few each day. A schedule is prepared at the beginning of each month providing for two complete coverages and proper spacing between coverages since the statements are used as a basis for a substantial portion of collection correspondence.

As the payments are applied to the customer's accounts the invoices are stamped "paid" and taken from the accounts receivable. Miss Sablotny files these daily in customer's folders housed in seventy bill-size files. The folders here are in the same order as the open accounts therefore no resorting is necessary.

Has Many Advantages

In all types of reference work this system has many advantages over the posted ledger. By knowing only who the customer is, all of the

(*Continued on Page 29*)

Checking a customer's account is simply a matter of looking through the file.

Sections can be taken out of the file desks for ease in preparing statements.

These are the only filing cabinets needed under the new system.

Relief, Rehabilitation or Ruin

Coming Storm Shows Need for Planning by Creditors

by CARL B. EVERBERG
Attorney-at-Law
Boston

Storm signals have been hoisted for quite some time now for an economic storm—a storm in which many businesses will fail, when there will be considerable unemployment and much anxiety generally. The storm clouds have been gathering too; but they only drift lazily and the storm seems as remote as it was a year ago. The storm may not come, at least in its fullness. There are always many currents invisible, which divert a storm. And now, the operation of the Marshall Plan is possibly one of the currents which are holding off the storm.

Statistics seem to bear out the fact that business failures will be more and more prolific, however. The high cost of living has affected the entertainment field and those fields which are in the luxury margin. We must not deceive ourselves that we have not been in a spiral of inflation, and the spiral mounts higher from week to week. The high cost of living will probably cut into the fields which are not in the category of luxuries, if it has not already done so. It is a case of giving priorities to necessaries: first, food, next shelter, next clothing, next automoblies, next, *ad infinitum*. Any credit man may come to the office any morning and find a notice on his desk about the financial distress of one of his best debtors.

Have We a Real Policy?

Are credit men generally, prepared with a policy as to the treatment of these cases when and if they appear? It may be said, on the whole, that credit men favor programs of rehabilitation when customers get into the slough of financial stringency or insolvency. Indeed this is the only normal reaction a credit man can have. Did the credit man not pass on the credit? And is not his judgment best vindicated by helping the debtor out of the swamp and eventually collecting from him in full? There is, nevertheless, a wide difference between this kind of hazy feeling toward a customer and a definite program. There are frequently cases where nothing but a liquidation is in order, and a credit man's emotional approach is not the kind which will bring out of the situation the maximum of realization. But let us go on.

It used to be (before the modern era of relief measures started somewhere around 1933 in the bottom of the depression) that generally speaking, when a merchant or business unit became involved in such a way as not to be able to pay his, or its, bills, liquidation was the only solution. When one of the ships in the sea of commerce started to sink, the inevitable conclusion was (with some exceptions) let it sink. The earlier bankruptcy notion was to sell the assets and distribute the proceeds ratably. The die was always cast as a rule when a debtor got in to bankruptcy. Put the debtor's goods on the auction block. And at a time when the number of debtors whose goods got on the auction block was legion, the amount of distressed merchandise was so prolific that no manufacturer nor merchant could sell prime merchandise in competition with it.

Creditors Need Debtors

But before the conditions became so serious that this wholesale dumping of bankrupt goods on the market threatened to stagnate all industry, there was very little consciousness about keeping distressed craft afloat. If a ship was sinking, well, it had to sink. It was one way of keeping a regulator on too many competitors anyway. It was always good to weed out the weak sisters too. But this reaction, if persisted in, might (and it frequently does) lead to a condition where a seller is sorry the customer is out of existence. It is hard to find another to take his place. In this world of relations, creditors need debtors as much as debtors need creditors; sellers need buyers as much as buyers need sellers!

When relief legislation was first passed in Congress in 1933 there was undoubtedly at first a swing too far in the other direction. Thousands of debtors flocked under the wings of the bankruptcy courts with plans, extensions and other types of adjustment, many of which were nebulous, even nightmarish. At first with things too new to chart definite courses, these avenues of relief provided unworthy debtors at times with methods of finding sanctuary from creditors without doing anything to rehabilitate and pay off the creditors. The courts, through the ever-working process of adjustment, trial and error, gradually brought about regulations and attitudes which compelled definite and prompt action on the part of debtors seeking relief through them, so that debtors whose purpose was only to stall off their creditors indefinitely found it unavailing to try it in the bankruptcy courts. Later legislation in the form of the Chandler Act (1938) crystallized all this into a definite system so that at present debtors with meritorious plans for adjustment and reorganization can

obtain fairly prompt relief, but those debtors whose plans are not sound will soon find themselves in the liquidation machinery of the Bankruptcy law.

Every Case Is Different

The credit man's reaction to a customer's financial distress must take on the pattern which was taken on by the courts and by the legislators as described in the foregoing paragraph. He must realize that every case stands, or should stand, on its own merits. It requires thorough analysis to decide whether a debtor should be helped up on his feet or whether it would be better not only for the creditor, but for the debtor himself, to let the enterprise which is the debtor's go through the liquidation mill. It is futile to think that every debtor's business can be rehabilitated. But the rub comes in trying to discern the worthy case from the unworthy one. How shall one know?

It was Bacon who said: "Conference maketh a ready man." He could not have announced a rule of living better calculated to safety in making decisions than in that one. By conferring with each other, we come to make wise decisions. Decisions should be made together, especially when the decision has to do with the extinction of a business enterprise. Much has been done in associating people together in common matters. The Credit Men's Associations are examples in the field of credit and collections. Credit men ought to confer with each other when a decision must be made. And many credit men do that very thing. But seemingly, there are almost always enough creditors who disregard the importance of conference, so that debtors become the victim of ill-planned courses of action that bring little good to any one.

$13.60 Creditor

How often do we see a petition in involuntary bankruptcy brought against a debtor where the total amount of the claims represented by the required three creditors is just over the $500, and that $500 is but a tiny part of the whole indebtedness? How often do we see a petitioning creditor with a claim of, say, $13.60, when there are creditors whose claims may be a hundred times that size? To be sure it is lawful for any creditor to act as petitioner regardless of the size of his claim. And it is expedient, at times to get the consent of a creditor, whose claim may be small, to act as a petitioner, when it is difficult to get the support of the requisite number of creditors to a petition. But does one not wonder at times what stake a creditor of $13.60 has in bringing a petition in bankruptcy?

Without any hint of impugning the motives of attorneys who ask a creditor for the use of a claim for bankruptcy purposes, would it not be the better course of action for such a creditor to confer with brother credit men as to the wisdom of throwing a certain business into bankruptcy? At the very moment a petition is being prepared, some other group of creditors may be working on a worth-while plan of reorganization for the debtor. Would it not be better to investigate it before yielding to the suggestion of going on with the bankruptcy petition? A bankruptcy is, actually, a matter of the public welfare. The extinction of a single business enterprise may have ramifications of a far-reaching nature. Undoubtedly it is because of this fact that Congress requires three creditors to take this important action. But perhaps more than three and with a higher aggregate in the amount of the claims would be a desirable change.

Three creditors with bull heads can ruin the plans of many others. This is a telling, if involuntary, endorsement of the Adjustment Bureau principle. We recommend that our readers study it carefully.

Of course, the relief bankruptcy statutes are so set up that a debtor can offer a plan of arrangement, or reorganize in the bankruptcy proceedings. However, it is a handicap to have him suddenly thrown into bankruptcy proceedings before working out a plan. Time gets very short at this point and the publicity of the bankruptcy makes it more difficult to win favor amongst creditors for their support.

Bankruptcy a Last Resort

We do not, here, argue against bankruptcy. It is the final resort, and a necessary one in many instances, especially where a debtor is preferring some creditors over others or letting assets go in all directions. What we argue for is an approach which takes into account the possibilities of rehabilitation, the welfare of the industry in which the debtor is engaged, and the welfare of the country's economy as a whole. This sort of approach might not be possible so long as it is easy to gather up three claims to make a "case."

Something might be said as to the methods of relief and reorganization open to those interested in the rescuing of businesses threatened with insolvency or financial peril. It is, or ought to be, possible to arrange a suitable program of relief outside of court. The costs are usually less; the length of time consumed can be less because there are no requirements of notice proposed meetings as provided by statute. The schemes for readjustment are as variable as there are businesses. In one case an extension agreement under which creditors agree to extend the maturity of their claims may be feasible; this method is best accompanied by a creditors' committee with supervisory powers. In another, a compromise settlement may be the best; in the more desperate cases, creditors may be asked to accept income debentures. In the latter a percentage of the income is reserved for the payment of the debentures.

Four Sides to the Problem

All plans for relief are not workable. This is where the counsel of creditors (or groups of creditors) becomes of much importance. Expert counsel may be required. There are usually four principal sides to every one of these problems calling for special treatment. And it makes no difference whether the case is outside of, or in, the court. Usually the reason the cases get into court is to obtain sanctuary

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When the Boom is Over

Credit Men Can Do Much to Cushion the Shock

by E. WILLIAM LANE

Treasurer

AMERICAN SCREW COMPANY

Providence

(National Director for the First District)

Forecasting is not my business and I will not attempt to prophesy what will happen six months hence. The purpose of my thesis is to bring to your attention a number of world conditions and credit problems which confront us as credit executives and have a powerful bearing upon our domestic economy and credit procedures.

World monetary conditions I feel deserve first consideration. Only a few of us have taken the time to consider what has happened and is likely to happen to the currencies of other nations. France and Italy have devalued their monies. England, at the time this paper is prepared, has adopted drastic currency controls in a determined effort to peg the value of the English pound. Even our good neighbor, the Dominion of Canada, notwithstanding that her dollar was placed upon a par with the United States dollar in July 1946, has found it necessary to adopt rigid regulations restricting the import of many commodities from this country.

Dollar Lack Impairs Trade

Briefly, all of the countries that I have mentioned thus far need and want our goods, but they lack the dollars to pay for them if they buy them from us. In other words, an unfavorable balance of trade exists. But the shortage of dollars arising from the unfavorable balance of trade may be traced to the dislocation and devastation that has followed World War II, along with the poor moral level and declining internal conditions of their respective economies. Where the people of a country have been and may be at the moment only one step ahead of starvation, it is not difficult to understand that conditions are not conducive to a free flow of international trade.

Already the luxury lines of business have felt the impact of deteriorating monetary conditions. The slump in the motion picture industry, because of the high tax which Great Britain found necessary to impose and which was terminated May 1st, was due to a dwindling supply of United States dollars. The impact of unemployment in this industry, I dare say, has been felt in such centers as Los Angeles and New York.

Other industries have felt the impact of currency restrictions as well. The time is running out when all one has to do to sell in the export market is to ship against letters of credit in New York. The dollars just aren't available any more to back up purchases made in this manner.

Monetary Developments

Although the International Monetary Fund was designed to stabilize world currencies, it is obvious that 'Self-preservation is the first law of nature', and it is indeed significant that new values are being set up in relation to the value of gold.

Although the price and sale of gold in the United States is set at $35.00 per ounce, the fact remains that this precious metal brings considerably more than $35.00 per ounce in the free markets of the world. Eventually your business and mine are destined to be affected by these monetary and currency developments. May I leave the thought with you that gold prices and currency are no longer academic questions left to the economist's field. They are now practical problems vitally affecting the future of us all.

To summarize and get down to a practical application of the fact, the prices of your products, the value of inventories and the salary and wage levels along with many others will be affected by forthcoming developments as they pertain to the value of gold and world currencies. I recommend them to you for further study and observation.

Marshall Plan

"Blessed are they that do hunger and thirst after righteousness, for they shall be filled". I have deviated for the moment to quote one of the Beatitudes before touching upon the European Recovery Program or the help which we may extend to friendly distressed nations of the world. Any way you look at it, the Marshall Plan or whatever other title it may be eventually known by, is a program to relieve distress and to provide food, clothing and shelter. In the final analysis, American business will not create friends or influence any one if we profit out of human misery. Psychologically it will undoubtedly give courage to the distressed peoples it is intended to help, and will raise the morale to a point where we hope there is a disposition to help themselves.

The way any program is administered means the difference between success or failure. I believe we are fortunate to have a man like Mr. Paul Hoffman in charge of this program. For once a successful and highly qualified

business man has been given a job to do in government service.

As a word of caution it seems to me that business should not lose sight of the fact that, if the European Recovery Program meant a further spiral in prices of many basic commodities, then your business and mine would be open to the charge of profiting out of human misfortune. Therefore, in any industry it behooves us to avoid any policy or procedure which would leave us open to censure or undeserved criticism. Senator Taft has ably and briefly shown that the amount of money to be provided for this program is only a small percentage of the total volume of business for the country. So I repeat, European relief is a humanitarian problem and we will do well to approach it as such.

Credit Inflation

The post war period has been one of expanding credit. Between ¾ of a million and one million new enterprises have been brought to life since World War II to compete with the established and well-integrated business units. Bank and mercantile credits have expanded and many inventories today are being financed with borrowed funds. Credit limits have raised to a point where we see some old customers with lines that are three and four times more than they were a few years ago. I leave it to you, isn't this credit inflation?

When we discuss inflation, it is well that we agree beforehand just what we mean by the term. As one well-known economist has stated, there are no less than ten forms of inflation; currency inflation, commodity inflation, credit and wage inflation are perhaps the ones which concern us most at the moment. Since the termination of World War II, we have seen wage inflation, commodity inflation, currency inflation and, last but by no means least, credit inflation.

Credit Files "Junked"

Following the war period and for many months thereafter, shortages of many commodities prevailed. We saw prices spiral, wages increased and the rank and file of our people had generous supply of cash, but with only a limited supply of commodities available to spend it on.

During this boom period tangible articles were preferred to cash. Real estate, automobiles, jewelry, furs and many other commodities were bought and paid for with cash on the line. The law of supply and demand was working overtime, with the emphasis on the demand. Some concerns even "junked" their credit files. I wonder if they feel that was a wise decision today? New business ventures were started and many of the new enterprises were undertaken by veterans of the war, with limited capital and with little or no experience. Over ¾ of a million new business ventures were launched to compete with long established and seasoned competitors.

It is not difficult to understand now why commercial failures have increased 80%. Inventories literally "grew like Topsy" and were helped along by bank and mercantile credit. Many of us lost friends and customers because we tried to spread around the available supply of goods. Business recorded handsome profits, much of which was made on the out-put sold in the export field where there were no price restrictions and in most cases was paid for against letters of credit before leaving the country.

This all adds up to our having before us the following conditions:

1. Large accounts receivable which have now slowed up in turnover.
2. A sharp increase in commercial failures.
3. Large inventories which are out of line to the volume of business transacted and the working capital employed in the business.
4. Many products have increased in price to a point where they have priced themselves out of the market.

For example, the automobile which I bought a few years ago for $1,000 probably will cost double that amount today, and I do not feel that I should spend that money, and there are literally thousands of others in the same situation. Better still, let us take an inexpensive item such as a nickel bottle of soda. Anyone in the soft drink trade will tell you that a large part of the volume comes from the youngster who has a nickel and no more to buy his bottle of Cola or Root Beer. When bottled soda was increased to 6¢ many a youngster went without and sales slumped. The commodity had priced itself out of its market. Another interesting case concerns a well known restaurant in Boston with a reputation for fine pastries. The price of apple pie cut was 20¢. A few weeks ago the price was reduced to 15¢ per cut and sales increased 100%.

Space will not permit me to discuss in detail the firming of interest rates and the raising of the rediscount rate by the Federal Reserve in most of the Federal Reserve Districts. I know that you have observed these reports and may wonder just what the effect will be in the long run. The increase in the price of money or interest is something that has not happened in a great many years. In other words, the demand for money has boosted the rates. I have confidence in our bankers and I feel certain that borrowing will be kept on a conservative basis and speculation in inventories discouraged.

I have already touched upon certain types of merchandise pricing themselves out of the market, and I hope that the race between wages and prices will not go to a point where there is a 'bust'. No one in this enlightened era wants to see an individual poorly paid, but I leave the thought with you that it is possible for an industry, a business or a group of people in their particular line to price themselves out of a market or a job.

The Communist Issue

No discussion of present economic conditions as they affect credit policy would be complete without giving full consideration to the rising tide of communism and the Russian situation. April 16, 1948, may prove to be an important date in world history by the defeat of the Communist Party in the Italian election. Secondly, the appointment of Mr. Paul Hoffman to administer the European Recovery Program has been well received and we hope will be instru-

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Unexpected Upset Features 40th Semi-Annual Survey of Credit Conditions in Latin-America

by PHILIP J. GRAY
Manager
FOREIGN CREDIT INTERCHANGE BUREAU
New York

Panama edged out Cuba by one point to take top position in both "Credits and Collections" in the 40th Semi-Annual Survey of commercial credit and collection conditions in Latin-American markets covering the first-half of 1948. These two countries shared first position in the previous survey conducted by the Foreign Credit Interchange Bureau.

Argentina and Brazil provided the biggest upset in the current survey by losing 29 points and dropping into the "Very Slow" collection classification and rating only "Fair" in credit standing, with a consequent shift to less liberal credit terms by 43% of the members on Argentine business and by 24% on Brazil. Many members stated flatly, in this survey, that they would accept no more business from either country except on a "fully-secured basis."

Creditwise, fifteen countries improved their position and nine registered declines. Haiti, Nicaragua, Guatemala, Peru, and Uruguay led in recovery while Colombia, as well as Argentina and Brazil, lost ground.

Improvement in Collections

In collections, eleven countries showed improvement, eleven declined in rating and two showed "No Change". Haiti, Guatemala, Mexico and Salvador were among those to improve in standing, while Bolivia, Colombia and Chile joined Argentina and Brazil in their decline. Cost Rica continued as "slowest pay" market.

In the survey of terms granted during the first-half of 1948 with those extended during 1947, greatest change was registered in seven markets where members were forced to reduce credit terms as follows: 43% on Argentine business, 24% in Brazil, 19% in Costa Rica, 14% in Chile, 13% in Colombia, 11% in Paraguay, and 9% reporting less liberal credit terms to Bolivia. Changes in terms closely followed members' credit and collection experiences—terms being virtually unchanged in the top-rated markets of Panama, Cuba, Dominican Republic, British, French and Netherlands Possessions.

Comments from Letters

The following comments are taken from members' letters accompanying their survey reports:

Argentina—"We have had no dollar remittances since the issuance on May 14, 1948, of the order of the Banco Central, requiring its additional authorization on remittances abroad of official exchange, in payment of imports. In the face of existing exchange shortages in the Argentine and with the possibility of a delay of one year or longer on payments, we are not interested in making further shipments for the present, except on the basis of irrevocable, confirmed credit."

Bolivia—"is a comparatively small market for our goods. We ship on a draft basis for moderate amounts, and while some bills are paid promptly, others are delayed up to 90 days. Notwithstanding our belief that the exchange situation has improved somewhat, we would be inclined to hold total commitments down to a moderate amount should more sales develop."

Brazil—"We understand that

CURRENT SURVEY OF COLLECTIONS—JULY, 1948

(In percentages of replies received)

	PROMPT	FAIRLY PROMPT	SLOW	VERY SLOW
Argentina	28%	11%	48%	13%
Bolivia	40	15	18	27
Brazil	18	17	36	29
British Possessions	81	11	6	2
Chile	21	12	41	26
Colombia	24	19	29	28
Costa Rica	12	18	14	56
Cuba	90	5	4	1
Dominican Republic	89	5	4	2
Ecuador	57	7	19	17
French Possessions	82	10	6	2
Guatemala	84	6	8	2
Haiti	87	7	4	2
Honduras	73	7	14	6
Mexico	74	15	7	4
Netherlands Possessions	83	8	6	3
Nicaragua	74	14	9	3
Panama	91	5	3	1
Paraguay	41	4	36	19
Peru	46	12	24	18
Puerto Rico	86	5	6	3
El Salvador	75	7	13	5
Uruguay	38	13	34	15
Venezuela	81	9	6	4

Brazil has a large backlog of unpaid bills that is being liquidated slowly out of newly created dollar exchange. As we have a number of drafts outstanding, awaiting payment, we are not interested in making further shipments on a draft basis, particularly in view of the regulation requiring a 45-day interval between the registration of the application for exchange and the closing of exchange.''

British Possessions—''While it is our belief that imports from the United States will be screened carefully, we have had no doubts with respect to the return of dollar exchange promptly if an import permit is granted.''

Chile—''Although we understand that Chile is reducing its backlog of unpaid bills, we still have a number of bills that have been outstanding for long periods. We are inclined to hold up shipments unless we can obtain letter of credit financing.''

Colombia—''Within recent months, exchange restrictions have been subject to so many changes that we are at a loss to know whether it is safe for us to ship on a draft basis at this time. While we have a number of orders on hand which we are asked to ship on a sight draft basis, we believe we will hold them until such time as we can get a clearer picture of dollar exchange availabilities.''

Costa Rica—''Some months ago we requested our representative to discontinue sending us further orders until the present backlog of commercial debt in Costa Rica was liquidated. We have some bills outstanding for many months and we believe that further shipments on a draft basis would merely aggravate the country's present exchange difficulties.''

Ecuador—''Steps have been taken by the Government to bring foreign exchange requirements in line with foreign exchange availabilities and apparently these steps have been successful, as most bills are now paid promptly. We check our credits carefully and if we are satisfied with the credit of the buyer, we ship A and B category merchandise on a sight draft basis.''

(Continued on Opposite Page)

SURVEY OF TERMS GRANTED DURING FIRST HALF OF 1948 AS COMPARED WITH 1947 TERMS

(In percentages of replies received)

	NO CHANGE	MORE LIBERAL	LESS LIBERAL
Argentina	56%	1%	43%
Bolivia	91	......	9
Brazil	71	5	24
British Possessions	97	1	2
Chile	85	1	14
Colombia	84	3	13
Costa Rica	80	1	19
Cuba	99	......	1
Dominican Republic	98	1	1
Ecuador	94	1	5
French Possessions	97	2	1
Guatemala	96	1	3
Haiti	97	1	2
Honduras	92	2	6
Mexico	95	2	3
Netherlands Possessions	97	1	2
Nicaragua	97	1	2
Panama	99	......	1
Paraguay	87	2	11
Peru	93	2	5
Puerto Rico	97	1	2
El Salvador	95	2	3
Uruguay	93	2	5
Venezuela	96	1	3

COMPARISON OF CREDIT AND COLLECTION INDEX FIGURES

(Based on Surveys on Credit and Collection Conditions in Latin America)

	Credit Conditions			Collections		
	July 1, 1948	*Jan. 1948*	*July 1947*	*July 1, 1948*	*Jan. 1948*	*July 1947*
Argentina	219	233	270	39	68	70
Bolivia	212	215	215	55	62	56
Brazil	210	220	270	35	64	69
British Possessions	283	281	276	92	90	95
Chile	190	193	212	33	43	44
Colombia	210	223	226	43	65	47
Costa Rica	180	181	205	30	25	39
Cuba	291	290	300	95	95	98
Dominican Republic	289	288	290	94	94	92
Ecuador	240	236	233	64	69	63
French Possessions	282	286	265	92	93	88
Guatemala	270	259	265	90	83	79
Haiti	289	272	273	94	86	85
Honduras	247	245	252	80	78	79
Mexico	250	248	266	89	82	88
Netherlands Possessions	281	285	278	91	92	90
Nicaragua	278	268	251	88	84	81
Panama	292	290	300	96	95	98
Paraguay	208	203	235	45	44	55
Peru	223	213	258	56	60	68
Puerto Rico	280	286	300	91	93	98
El Salvador	248	241	261	82	76	80
Uruguay	220	208	255	51	46	65
Venezuela	278	275	291	90	91	85

Credit—**GOOD: 250 and up. Lowest percentage 50% good, 50% fair.**
FAIRLY GOOD: 225 to 250. Lowest percentage 25% good, 75% fair.
FAIR: 200 to 225. Lowest percentage 100% fair.
POOR: 175 to 200. Lowest percentage 75% fair, 25% poor.
VERY POOR: Below 175 . . . .

Collections—**PROMPT: Over 70% prompt or fairly prompt collections**
FAIRLY PROMPT: 50% to 70% prompt or fairly prompt collections.
SLOW: 40% to 50% prompt or fairly prompt collections.
VERY SLOW: Less than 40% prompt or fairly prompt collections.

Peru—"Our payment experience on Peruvian bills has been somewhat more satisfactory in the last few months, but we are watching the situation carefully, particularly in view of the recent political disturbances which may further unfavorably affect business conditions."

Comment Pro and Con

The following comments illustrate the "dollar-exchange dilemma" currently confronting the Credit Executive:

One Member Acquits—"By reason of widespread dollar exchange shortages it is rather difficult for us, at this time, to properly survey credit conditions in the Latin-American area, as requested by you. Inability of importers to obtain dollar exchange promptly might be construed in some quarters as a credit weakness. However, we have based our compilation and credit rating on willingness to pay and, in fact, on actual payment in local currency pending availability of dollar exchange. On this basis our credit experience compares favorably with that reported to you in previous surveys, even though our collection experience is poor in many markets."

Another Member Indicts—"An invariable rule in our organization makes it necessary for us to mark as past-due and delinquent any bill for which dollars are not received within a specified period. Through no fault of their own, customers may not be in a position to secure dollar exchange due to shortages or governmental action, but our credit department insists this adversely affects their credit standing. Perhaps our attitude is arbitrary but at any rate you will notice in many countries the credit rating assigned by us is rather low and might possibly be questioned by you without our explanation that the customer and his country both share in our credit analysis and rating."

240 Contributors

The 240 American manufacturers and exporters contributing to this survey are located in all parts of the United States. They represent a veritable cross-section

(*Continued on Page 31*)

It Can Happen Again

Vesty Gates Muses on Losses in Leases

by H. M. SOMMERS
Credit Manager
TROJAN HOSIERY MILLS
Indianapolis

Vesty Gates was taking his usual ten o'clock jaunt through the columns of the *Trade News Daily*. "M—m! Bankruptcy notice!" he exclaimed. Alice looked up inquiringly from her task of ticketing past-due accounts for follow-up.

"I can remember," Vesty continued, "when these notices of petitions and of subsequent proceedings took up two or three columns. Why, if no bankruptcy news appeared in a particular issue that was news itself here in the office. Then came the war and the column disappeared. Now individual cases are beginning to trickle through again, like this one."

"Is it anybody we know?"

"Not this time. Somebody else's customer. In fact, they were a good many other peoples' customer. There's quite a list of them here."

"I was thinking," Alice reflected, "how exciting it must be to turn thumbs down on an account and then read a bankruptcy later. How does it feel?"

"Well—," Vesty answered slowly, "of course you can't help congratulating yourself that your company's name is not down there on that list of creditors. It gives you confidence to have your judgement vindicated. But if you are honest with yourself you won't be too cocky. You'll remember, for one thing, how many other times you were wrong—and in credit there are two ways to be wrong: You can accept the wrong business, and you can reject the right business. And probably the latter costs your company the most."

"But wouldn't that depend upon the amount of business you turned down?"

"Yes! But there is no way of estimating that. You can figure out your losses on a bankrupt account and weigh them against profits earned on that account before bankruptcy—but there is no way of knowing how much future business you turn down when you reject as too dangerous an account that your competitor's credit man is smart enough to take on and nurse to a healthy state."

"So you have to weigh the pros and cons carefully."

"Indeed you do. The easiest thing to say is 'no!' All you have to do is look at a few cons and ignore the pros. But it takes credit sense to weigh them against each other. And many a decision is a very close one."

"Especially when business is tough?"

"Yes, if you mean that the obligation is even greater than to explore every possible avenue to shipment. But you can never let the desire for business seduce sound judgment."

"What is the biggest order you ever turned down, Mr. Gates?"

"Ten thousand dollars. But, as I say, that was only the initial order."

"Wow!" Alice was completely unself-conscious about the out-of-character whoop she had just emitted. Then she sat very quiet. The inevitable next question was on her lips. Dare she ask it?

Vesty calmly reached for the *Mausoleum* and began turning the pages with a show of abstraction.

"Uh—" she began hesitantly, then plunged, "did that happen to be one of those accounts your competitor nursed to a state of robust health, Mr. Gates?"

"No, Miss Lert, as it happened that firm was in the bankruptcy court just fifteen days after we turned them down."

"Glory be, that *was* dramatic. But surely just fifteen days before bankruptcy you had enough clews to make the decision easy!"

"Not as easy as you might think. After we persevered and unearthed all the facts that did not meet the eye, the decision was not too hard. The test was during the six or seven days before that when we had a few pros and cons and the sales department was tearing its hair and crying that this ten-thousand-dollar order would be canceled and the door closed to a gold-mine of business with this big shoe chain unless the credit department gave them the go-sign on delivery but quickly."

Alice visualized the pressure and squirmed a little. "Same old story of sales department impatience!"

"I wouldn't put it that way," Vesty answered quickly. "They were doing their job—and well. A ten-thousand-dollar order with more where that came from certainly wasn't hay in 1931. In fact it was an event, and your Uncle V. G. could easily have gone introvert and imagined the accusing eyes of the whole sales force focused on him while he was holding that order, digging for facts and then even taking time to weigh them!"

Alice giggled. "I can hardly visualize you in a haunted role, dodging into your office, avoiding eyes that say, 'there goes that man —that muffer of our masterpiece.'"

Vesty didn't hear that last remark. He had laid down the *Mausoleum* and seemed to be preoccupied with another idea. "I'm glad you brought that case to my

mind, Miss Lert," he said at last. "There's a certain kind of credit problem in it that we haven't talked about. Go back in the archives and get the Pincheon Shoe Company's file and we'll mull it over."

When Alice returned with the file, Vesty opened it to the back pages and scanned some of the reports to refresh his memory, while she drew up a chair and prepared to look on.

"We began our investigation February 5, 1931, while the order was still cooking. Two agencies consulted." Vesty took out his pencil and pointed to the highlights of the report as he talked. "Briefly, this report shows the business as a newly organized corporation one month old, succeeding an established business, the Warum Shoe Company. Same officers as in the predecessor company, whose assets they bought in bulk sale with due notification to creditors."

"Hm—m. That's odd. What was the reason for the transfer?"

"You'll have to learn about that later, just as I did. It's not in this report. Here is the balance sheet just after the assets were transferred. Now put yourself back in 1931, study that balance sheet, and tell me what you would do with it. If you would like to ask the customer some further questions, I'll oblige and be the customer."

Alice took time to survey the statement carefully.

Cash	$ 215,009.00
Accounts Rec.	102,001.58
Merchandise	1,895,008.23
	2,212,018.81
Prepaid items	26,490.02
Furn. and Fix.	560,000.00
	2,798,508.83
Notes:	
Due Banks	$ 300,000.00
Due Others	202,000.00
Accts Payable	
Mdse Creditors	180,274.49
Others	103,842.00
Accruals	8,432.10
	794,548.59
Capital Stock	2,000,000.00
Surplus	3,960.24
	2,798,508.83

"Well," she began, entering into the game, "working capital is about $1,400,000. Merchandise is approximately $1,900,000 and is there-

fore too high in relation to the working capital. What are your sales?"

Vesty Gates Pincheon answered promptly, "We have been in business one month. In that month sales were $400,000."

"That doesn't help much. What was the predecessor-company's volume for the fiscal year."

Vesty dug through the papers and answered, "$8,000,000."

"Well that's a fair enough turnover. But the new company is not keeping up the rate of sales."

"January is a slow month."

"Hm—m." She looked away for a second as if not quite satisfied, then continued. "Fixed assets are less than thirty percent of net worth. *That's* okay."

Vesty slid out of his role of spokesman for the Pincheon Shoe Company, and resumed his own identity. "Yes. Of course you must remember that this is a shoe-chain and the probabilities are that all stores are rented and that fixed assets represent only furniture store fixtures, and leasehold improvements."

Alice checked the report and found his suggestion confirmed.

"Now, let's see," she continued, "debt seems not to be too heavy in relation to merchandise and is only about forty percent of net worth. I have no criticism there. Cash and receivables cover accounts payable and accruals. The only thing unfavorable turned up so far is that heavy merchandise to working-capital ratio and the fact that January sales of the new organization do not seem to be up to par."

"Haven't you any other questions to ask me?" Vesty hoped she would pass the test and give some items on the statement closer scrutiny.

"Well, of course, I'd like to know the full story about the new company's taking over the old one. That ought to be cleared up and the report doesn't give much detail about it. And then—here's something I have been noticing. These liabilities—*notes payable—others* and *accounts payable—others*. What can they be?"

"Good for you!" Vesty scrambled through some papers in the file, happy that Alice had turned up the key question. "That's exactly what we asked the customer. Let's see if I can find their letter, so they can answer you in their own words. . . . Yes, here it is."

Author's note: While the source-material for this article was gathered from actual bankruptcy files, names and details have been fictionalized, and any resemblance to actual firms is purely coincidental.

Alice read:

"Notes payable to others is made up of the following: (1) $102,000 due trade creditors of Warum Shoe Company whose assets and liabilities we took over January 1. Payments on these notes run through August 1931. (2) $100,000 due the Warum Shoe Company in monthly installments of $6,000 each beginning January 1, 1932."

"Oh," she said, "so they didn't pay cash for the old business."

"No. Notes and capital stock of the new company, we learned later. And they didn't pay some of the old creditors, either. This explanation of theirs about the notes indicated an extension agreement which came to light with further investigation."

"What was the $106,000 accounts payable to 'others'?"

"Well, here's what they say," said Vesty, reading aloud with slow emphasis:

"'The item of accounts payable to others consists of amounts due landlords for rent. We have cleared up about half of this since the statement was issued.'"

"Why, how could that much rent accrue, and why wasn't it paid?" Alice asked in surprise.

"Obviously it was rent owed by the former company, and that really was the signal for me to hold the whole fabric up to the light, turn the garment inside-out, inspect the seams and otherwise look for flaws."

"What did you find?"

"We contacted the same two agencies, the two banks, three principal creditors and Pincheon's president, using telephone and air mail to hustle things along. That is when I got the answer to your question—why the transfer of assets from Warum to Pincheon.

"Here's the story. The old company had been struggling along under heavy rentals fixed by long-term lease agreements. That was a common difficulty in the depression period. Leases at high figures had been signed in the prosperous days of 1928 and early 1929. Sales dropped in the thirties to a point that wouldn't support such high rentals. The leases couldn't be broken. A business at a single location with a burdensome lease was, of course, hit. But multiply that difficulty by three, six, fifty or a hundred stores and you get an idea of what some chains were up against."

Alice interrupted. "But wouldn't a landlord be smarter to make a downward adjustment of rent rather than to drive his tenant out of business? There must have been a lot of vacant property and cheap rent in those days."

"Many of them figured that way and did make adjustments. Others held rigidly to the contract, and if tenants broke leases they sued. Our friends here, though, thought they saw a way out of trouble with landlords by this bulk-sale transaction."

"How?"

"The Pincheon Company took over Warum's merchandise, receivables, and furniture, as well as trade and bank indebtedness and accrued rents. They gave in exchange $1,400,000 of Pincheon capital stock and the note for $100,000. Warum's statement after transfer then looked like this." He drew up a brief statement on his scratch pad:

Investment	$1,400,000
Notes Receivable	100,000
	1,500,000
Capital Stock	$2,000,000
Deficit	500,000
	1,500,000

"Pincheon signed new leases with those landlords with whom favorable adjustments had been already effected. All the unfavorable leases were left with the Warum Company and where adjustments could not be made, those stores were closed and the locations abandoned. Landlords were confronted with attempting to enforce a lease against a firm with no liquid assets."

"Looks like Pincheon sewed things up pretty well."

"You'll have to decide that when I ask you to tell me if you would have passed that $10,000 order. But you'll have to clear up a few more facts first."

"Yes, there is one thing that's been bothering me. It's those rent liabilities that Pincheon assumed. What's the whole story on that?"

"The new company had assumed all of Warum's liabilities as of January 1, under the bulk sale. And those rentals were payments that had been held up pending negotiations for reduction. Under the squeeze-play of the new set-up, many previously stubborn landlords did make reductions, but not all of them. That is what the letter meant when it said that about half of the accrued rent had been settled since the financial statement was issued."

"Well, that was good progress."

"And by the end of January the first payment on the extension notes to merchandise creditors had been met. And the bank reported a 50% reduction in its loan, with a short term renewal of the balance."

"Hm—m! Could that indicate lack of confidence in the new set-up?"

"It could."

"Well, now, I think we have about everything," Alice said, "Let's summarize. Good financial statement except for high merchandise figure. Sales in January low—and now I know that the January slump was not just slow January—it was fewer stores. Then we have two important items in the liabilities temporarily out of the way on a long-term basis—old merchandise creditors and the purchase note to the Warum Company.

"We know also that the bank may possibly not have complete confidence in the new set-up, though it did renew part of the loan. Then we have compromises being effected on accrued rentals, but some still hanging fire. And we have some landlords mad as hops holding abandoned leases against a shell of a predecessor company. It *is* a difficult decision with $10,000 in the balance isn't it?"

Vesty smiled, but waited for Alice to give her verdict.

"Of course, I have the advantage of knowing that you refused

credit and that you were right. But if I hadn't known that, I'm frank to say I probably would have accepted the order. Was it those fuming landlords that made you say no?"

"Not only the landlords, but the whole lease situation."

"But the bulk sale was made with due notice to creditors."

"Yes, but that doesn't preclude later action to set aside the sale if it can be shown that there was an intent to defraud creditors. That's exactly what some of the landlords did. Then somebody sued for a receiver for both companies. By that time Pincheon saw that the whole set-up would collapse and that they would be right back where they started, only much worse, so they filed a voluntary bankruptcy petition."

"When we got the bankruptcy notice," Vesty went on, "I looked back and smiled at the reassuring words of both the customer and some of their creditors just fifteen days before. Listen to this one:

'It is quite evident that the reorganization and transfer was instrumental in effecting discontinuance of some of the old leases. Naturally it might appear that this company was trying to compromise with its creditors, but they were only landlords, and not trade creditors and all such matters have been settled satisfactorily.' "

"Only landlords!" Alice laughed. "How much did that kind of thinking cost that creditor?"

"They are listed here for $20,000. At the time they answered our inquiry it was $15,000. When a fellow owes you $15,000 he can be made to seem a mighty good credit risk for somebody else who is going to help keep him in business."

Vesty turned to other correspondence in the file. "Here's a blithe little sample of minimizing, received from the company itself: 'There have been a few suits filed by landlords. Total amounts do not exceed $20,000—a small drop in the bucket for a firm the size of ours. They have all been compromised out of court.' "

"All but the ones that sued later for bigger and better amounts," Alice ventured.

"Well, Pincheon chose this way of trying to stay in business, and of protecting his trade creditors, but of course it didn't work because you can't show preference between creditors, and a landlord is a creditor as soon as pay-the-rent day rolls around and you don't pay it.

"Other firms in those days went through voluntary bankruptcy to break leases that were breaking them. Others, I suspect, used the lease excuse when it wasn't entirely justified. Some petitioned and reassured merchandise creditors that it was purely a lease situation and 'you won't lose a dime,' but of course that was silly."

"I have a question, Mr. Gates," Alice said. "I notice in some reports that leases of operating firms are held by affiliated companies. Does that protect the general creditors of the operating company?"

"To a degree, yes, especially if the affiliate is a separate corporation and doesn't own any stock in the operating company or have any other claims on its assets. But there are lots of technicalities about closing a location, even then. The question of whether or not the affiliate or the operating company owned the furniture would enter into whether it could be moved without repercussions, and of course the matter of moving fixtures from leased property seems to be a very involved one. Those are problems that only an attorney can answer according to the specific situation involved. For us there is a much more direct credit problem when leases are discontinued. Suppose you do manage to break leases with absolutely no legal kick-backs; when leases are broken those stores are closed and—"

Alice interrupted. "That means loss of volume, just as I pointed out in the case of the Pincheon Shoe Company."

"Yes. You will remember that I said I turned the account down, not only because of the kick-backs from landlords, but because of the whole lease situation. With an inventory of $1,900,000, sales dropped to $400,000 with the possibility of a good many more units being closed. Remember the fast-trading dress business we examined a few weeks ago? Small chain, with working capital tied up in a heavy inventory. They aggravated that condition by closing several units and moving that merchandise to the other stores. Total volume dropped because of fewer units; inventory turnover was slowed up; mark-downs had to be taken; debt could not be liquidated fast enough and the firm flopped before it could regain its equilibrium. It's a pattern."

Vesty was steamed up by this time. "That dress chain's leases were held by an affiliate. The operating company could and did abandon the unprofitable locations. Given enough time they could have found new locations at cheaper rentals, no doubt. But getting established in new locations is costly; the first year's operations dip into the red ink pretty deeply; and it's hardly a risk to be taken by a firm that has already sustained heavy operating losses at old locations. So what happens? You have a business geared to operate, say, forty outlets, trying to operate on the income from thirty. Inventory is too high, debt is too heavy, and officers' and executives' salaries and general overhead are too burdensome. The volume won't support them. And remember the volume has dropped all at once whereas readjustment of these burdens takes time—and in that interval anything can happen."

"Well what about high rent commitments nowadays?" Alice asked.

"Lease problems have two angles these days. With housing problems what they are we should check on the life of a customer's lease, especially the small operator who may not have any at all, and know what the chances are of his being set out on the street and not being able to find another suitable place.

"As to high rentals, we still have to watch that carefully. Most veterans of the depression learned their lesson on leases. The really big chains these days have a real estate department that makes detailed traffic studies and have otherwise exposed the problems of location and rentals to more scientific procedures. Many leases, both chain and individual, now are on a percentage of sales basis, but we have to watch for minimum guarantees and see that they are not out of line with possible recessions in volume.

"Watch your new operators particularly. They haven't had the depression experience. With new accounts, ask about their rent commitments, especially where there are three or more stores. You notice that we get operating statemants wherever possible and figure the percent of various types of expense to sales. I believe five or six percent for rent is a good general guide.

"If we can't get specific information we have to confine ourselves to sniffing the air and going on the hunt when we get minute signals: dropping volume, retarded payments, operating losses, unfavorable general business conditions, closing of units and their numerical ratio to the remaining units. The acute business housing shortage today make rents high but present volume is supporting them. Come signs of the next recession, look out!"

1948 Campaign On Fire Losses Starts Oct. 3

To save lives and resources from fire, one of the most extensive nation-wide advertising campaigns yet undertaken by the National Board of Fire Underwriters has been launched this summer. The campaign will bring the menace of fire forcefully to the attention of millions of people.

Using the symbol of the flaming Fifth Horseman, riding ahead of the four threats to life—War, Famine, Pestilence and Death—the campaign includes a broad schedule of advertisements in national magazines.

The striking figure of the Fifth Horseman will dominate this fall's Fire Prevention Week poster and other safety literature. Its flaming cloak and face of a skeleton as the menace responsible for the spiraling costs of fire—$700,000,000 a year and taking more than 10,000 lives.

Each advertisement carries the message of the personal threat of fire to the lives and property of readers.

Borderline Credit Applicants

An Executive Points them Toward Training

by C. A. MAGUIRE
Assistant Secretary and General Credit Manager
FRANCIS H. LEGGETT & CO.
New York

The expert credit man brings to his job an ability to evaluate not merely the financial picture of an applicant for credit but also the applicant's potential ability to stay in business, prosper, and meet his obligations. In the majority of cases the facts point clearly to a decision. But there are many border-line cases where certain things are lacking, especially experience, and here much skill and judgment are essential.

Will the applicant be a good risk? If the executive decides not to take a chance in risking his company's funds, will this man go to another company, obtain credit, succeed, and thereby be a friend and customer for life of that competitor? Every credit executive, in short, could undoubtedly increase his firm's number of dependable customers if he could see the possibilities for success of more men in this border-line category.

School for Customers

In the food field the opportunity is available now for the credit executive not only to satisfy himself on these possibilities but also to cement further the good relations with many prospective customers by giving them a helpful suggestion which they will long remember. This opportunity is now opening up through the development of practical types of training in food merchandising by the Food Industry Training Center of the City College of New York. This is a project of the Evening and Extension Division of the College's School of Business, with whose work the writer is somewhat familiar, since he is rated as the godfather of the Division's original Food Store Management Course. That course has already added materially to insuring the success of many food merchants in the Greater New York area. The Division attributes its launching of the course to a suggestion made in an article by this writer a few years ago. This fall the course will blossom into the new full-fledged Food Industry Training Center, which will supply complete lines of practical training for both wholesale and retail personnel. Both beginners and experienced men and women are enrolling.

Points Way to Success

The original course has definitely demonstrated that training, when carried out by men who genuinely understand business, can spell the difference between success and failure for otherwise capable but inexperienced people. It can not only help such people but it can also speed up the success of many men and women whom the wholesaler's credit manager would pick as "naturals", but who similarly lack sufficient actual experience in the field.

These are strong statements. But this training of food merchants now has a record of several years' experience and has been taken by more than 800 merchants from New York City and nearby sections. Most of them were already running their businesses and took the course to get the benefit of the expert training in various store problems. The course demonstrated its ability to take moderately successful small merchants and in its relatively short period help them in many instances to double, and even more than double, their volume of business. The training has so thoroughly satisfied the merchants of its value that the New York State Food Merchants Asociation at its last annual convention urged the inauguration of similar courses in every community in the state.

Deals With Practical Problems

To many men in the credit field, these facts will come as a surprise. Most businessmen have found so much training, particularly college training, to be impractical, that they have long since given up any thought of looking to it as a source of help in the actual problems of running a business. This Evening and Extension Division food training, however, plunges right into the practical problems of operation. The head of the new Food Industry Training Center, Harry E. Cohen, who is himself an experienced businessman, sees to that.

"There are three points at which the food merchants most frequently go wrong," Mr. Cohen says, "and we concentrate our training on those points. One is pricing. Many a merchant fails to set his prices skillfully. Second, there is the problem of successful buying; and the third point is the problem of holding down expenses.

Teaches Smart Pricing

"Take pricing. There are several ways in which inept pricing can ruin a food merchant's business. The most obvious, of course, is failure to allow himself sufficient margin. In these days of stiff competition and loss-leader merchandising, smart pricing is no simple matter. On the one hand, the merchant's prices must be high enough to enable him to stay in business, but on the other hand, he can also

go wrong by pricing himself out of his market.

"In the expanded program in our Center, we shall have the time to train our enrollees fully in the fundamentals of successful pricing. The course will include training in the computation of prices, in ways of pricing to meet competition, and in such merchandising considerations as the establishment of a general price policy for the store, the influence of prices on the movement of different types of merchandise in the food field, and so on.

"The training in pricing will be thoroughly realistic. The trainees will take typical wholesale invoices and determine specific prices which they would put into effect on typical items in different types of stores. They will carry on field work to analyze, for example, the competition which a particular store would encounter in a particular neighborhood. Then on the basis of this and other analyses they will be required to stand up in class and defend their proposed prices before the other trainees and the instructor.

"This method of teaching pricing is a sample of the practical and thorough approach to be followed in all of the training. The trainee can become familiar with the extent and variety of merchandise which must be carried; such problems as consumer preference, the selection of types of merchandise to establish the store's "personality", and the planning that must be undertaken to carry out dynamic, aggressive selling in the typical competitive situation."

Practical Men Directing

The new Center is approaching its various training problems in the same practical way indicated in these remarks of Mr. Cohen's. Its first step was to establish a Business Advisory Board, composed of national and local food leaders to review its plans and help keep the training thorough, up-to-date and realistic. On this board are such men as Paul Willis, president of the Grocery Manufacturers of America; Francis L. Whitmarsh, president of Francis H. Leggett & Company and Chairman of the National American Wholesale Grocers Association; Patsy D'Agostino, retiring president of the National Association of Retail Grocers; Sam Schaffer, president of the Greater New York Wholesale Grocers Association; A. F. Guckenberger, executive secretary of the New York State Food Merchants Association; and John Traeg, first vice-president of the New York State Food Merchants Association and himself a leading New York City merchant. The presence on the board of these leaders and others representing different sections of the food field, indicates the importance which industry men attach to the new Center.

Such training undoubtedly can do much to turn individual merchants into better customers for the wholesaler as well as to help launch newcomers in the field. Wholesale credit men in the food field will undoubtedly find it to the advantage of their company to call the attention of promising merchants and new credit applicants to the training.

Credit Men in other fields may well find in the Evening and Extension Division programs, similar assistance for some of their credit problems. This Division, under its Director, Dr. Robert A. Love, has already gone far in developing such programs, and I know that Dr. Love and his associates are glad to sit down with any representative business group, and discuss ways in which their programs can be adapted to the needs of new fields.

Milwaukee: On September 25th the Jos. Schlitz Brewing Company will be hosts to the members of the Milwaukee Association of Credit Men.

The Easiest Way Is Best

(*Continued from Page 11*)

details can be gotten at once. It has eliminated the necessity of getting invoice numbers from the ledger card and then searching for the particular invoice. This is particularly important in connection with

"I appreciate all this, gang - but I tell you my hiccups have stopped of their own accord!"

the approval of warehouse invoices covering freight paid for our account and the preparation of allowances and adjustments. It is our intent and hope that we will be able to house three years of paid billing in this particular place.

By way of a buzzer system the credit manager and assistant credit manager can signal the bookkeeper handling a particular account to cut in on his phone. If the customer, salesman or broker talks in terms of car numbers, quantities or types of merchandise or dates of shipments instead of invoice numbers it is no handicap with all the basic details at our finger tips.

Personnel is a very important factor in this type of accounting. In making the change we have been able to do the job better with one less person. As needed, unlimited additions of units can be made without disrupting the system.

We like the modern version of the country storekeeper's system—every move counts!

Diagnosis in Business

(*Continued from Page 9*)

the great difference between long term creditors' investment and the proprietary investment as a source of working capital. Amortization, debt retirement obligation, interest and carrying charges are fixed, whereas returns on the proprietary capital are flexible and are determined by profits. Flexibility is lost if the business owes too much, and too heavy funded debt may easily burden operating costs to the detriment of the competitive position in times of strain. The aggregate of funded debt should never exceed the working capital. If it does then the entire proprietary investment is in non-current assets and the business is operated from day to day on borrowed funds.

The physician checks to see if too much excess weight is a burden placing too much strain on the proper functioning of the organs of the body, and we must check our subject to see that too much weight of debt is not overtaxing the business structure.

The fixed assets to tangible net worth ratio is to a certain extent a corollary of the one we just considered. As you and I analyze the balance sheets of our customers we "view with alarm" if this ratio is greater than 66%. How often have we said, "Too much of his capital is invested in real estate", or as I have frequently said to some of my customers, "If you want to succeed in the hardware business, get out of the real estate business". Operating officials too frequently succumb to the human desire to erect bigger and better plants, stores or warehouses, and the poisonous effect is not seen or felt during the upswing in the business activity, but depreciation charges, property taxes, and other fixed costs are major problems as the business tide goes out.

A study of the Bankruptcy cases filed under Section 77B in 1935 showed that 6½ out of 10 had more than 66% of their tangible net worth invested in fixed assets. The great majority of all reorganization cases show the same unbalanced condition. They needed relief under some reorganization plan or the fixed charges would completely bankrupt them.

We must consider this ratio carefully to determine the presence or lack of managerial foresight, just as the physician studies gland action and toxic condition of the patient.

Net Sales Ratios

Net sales are the life blood of any business enterprise. The ratio of net sales to net working capital shows the activity of working capital and indicates whether the concern is trading normally, too rapidly, or sluggishly. Many failures are the result of overtrading, and many wither and die because of small turnover of working capital which militates against realization of net profit.

Similarly net sales to tangible net worth indicates the activity of the investment in the business. Overtrading requires excessive use of outside credit, and the whirlwind operations produce a vulnerable condition similar to the highly inflated toy balloon—a little pressure from either outside or inside causes it to go "bang". In cases of undertrading, debts are usually light and creditors are paid, but the business is lost and continuity of sales broken.

We, as the physician, must carefully check the steady flow of this life-blood; so, to be professional, we must apply the cardiograph.

Inventory

Inventory and its relation to sales and working capital and current debt provide us with important and revealing ratios. Heavy losses due to obsolescence, changes in style, perishability and price fluctuations are hazards of heavy or excessive inventory. Each industry or division of industry has widely different ratios so that no reasonable standard can be used for all lines or businesses, but comparison with the industry averages reveals weaknesses within the subject being analyzed.

As the physician uses the X-Ray for the examination of the lungs, liver and gall bladder, we must use our X-Ray of comparison to check the inventory in relation to sales, working capital and current debt.

Through sales, merchandise is converted into accounts receivable into cash and profit. The average collection period reveals much about the credit and collection policy, and the efficiency of those who are expected to properly administer it.

Physicians by means of X-Ray and Barium check the Gastro-intestinal tract for weaknesses that interfere with its proper functions, and we apply our X-Ray of average collection period to check the G.I. Series in our subject.

Net profit is the reason for business enterprise. It is as fragile as the human nervous system. The ratios of net profit on net sales and net profits on tangible net worth are complementary; net profit on tangible net work the guide to the use of funds and ability of management to earn a return and satisfy investors; net profits on net sales a guide to particular operation and have competitive significance. Net sales above the "break-even point" rapidly add to net profits up to, of course, the point of diminishing returns.

A comparison of these profit ratios with the averages of the industry gives indication of the nerve system condition of our subject, as the physician checks the nerve terminals of his patient.

Aristotle said there are a million ways to be wrong, but only one way to be right. One who engages in the profession of medicine must be right—a life may well depend on it. We who engage in the profession of credit must also make the right analysis—a business life may well depend upon it. Perhaps the chances are a million to one, who cares? To be professional we must seek the *right* way and justify the confidence that has been placed in us. It is easy to be wrong and perhaps justify it somehow (bad-debt reserves are provided for such contingencies) but to be right gives so much satisfaction and that "glorious feeling" that goes with the compliment of "a job well done."

Survey

(*Continued from Page 21*)

of American products, the majority of them reporting on all the markets included in this survey. In compiling this survey, no consideration is given to the question of Governmental debts or service obligations, and the classification of "Credit Conditions" refers to the situation within the various Latin-American markets from the commercial point of view only, as judged by American manufacturers and exporters. Comments made by those replying to the survey under the general heading "Collection Conditions" may be considered as indicating the current trend based on the definite experience of American manufacturers and exporters having commercial collection items in the markets surveyed. The "Terms" feature of the survey simply reports whether members' terms during the first half of 1948 to Latin American buyers were "Unchanged" or "More Liberal" or "Less Liberal" than those granted during 1947, and the replies have been listed country by country in percentages.

CREDIT CONDITIONS

Insofar as the present Semi-Annual Survey is concerned, which covers credit conditions prevailing in the first six months of 1948, the members of the Foreign Credit Interchange Bureau rated 12 Latin-American markets as "Good," 4 as "Fairly Good," 6 as only "Fair," and 2 as "Poor." A comparison of credit and collection index figures by country is attached hereto, and we list below Latin-American markets in the order of their standing in the credit survey:

Good: Panama, Cuba, Dominican Republic, Haiti, British Possessions, French Possessions, Netherlands Possessions, Puerto Rico, Nicaragua, Venezuela, Guatemala and Mexico.

Fairly Good: El Salvador, Honduras, Ecuador and Peru.

Fair: Uraguay, Argentina, Bolivia, Colombia, Brazil and Paraguay.

Poor: Chile, Costa Rica.

COLLECTIONS

This is the third time in thirteen surveys in which all markets failed to reach the top collection classification of "Prompt" and "Fairly Prompt." It is also third of fifteen consecutive sur eys in which any market was listed as "Slow" or "Very Slow." Fourteen markets are again listed as "Prompt," 4 as "Fairly Prompt," with 2 "Slow" and 4 recorded as "Very Slow." The current survey of collections in percentages of replies received is attached hereto, in a country-by-country listing. Markets are listed below in the order of their rating in the Collection classifications:

Prompt: Panama, Cuba, Haiti, Dominican Republic, British Possessions, French Possessions, Netherlands Possessions, Puerto Rico, Guatemala, Venezuela, Mexico, Nicaragua, El Salvador and Honduras.

Fairly Prompt: Ecuador, Peru, Bolivia and Uruguay.

Slow: Paraguay, Colombia.

Very Slow: Argentina, Brazil, Chile and Costa Rica.

Your National Report

To Each Member of National:

With the close of the 1948 vacation period, there is presented an opportunity for me to extend to credit men, and to their families everywhere, a cordial invitation to attend the 53rd Credit Congress to convene on May 15, 1949 at Atlantic City, New Jersey, under the sponsorship of the National Association and for which the Credit Men's Association of Eastern Pennsylvania, located at Philadelphia, is host.

For many reasons, the selection of Atlantic City is praiseworthy because that famous resort has long been associated with the finest in vacation and convention facilities. The time of year is also perfect, for while we may sing of Paris or England in the Spring, nevertheless, a walk "On the Boardwalk at Atlantic City" leaves nothing to be desired.

Despite the fact that we look forward to a record-breaking attendance, hotel accommodations are adequate, and a long list of events and facilities will be available for the families of those who will combine attendance with a never-to-be-forgotten vacation.

It is a temptation for me to divulge some of the plans that are in the offing because the committees are at work, and it is gratifying to realize the amount of thought and effort that have been contributed toward the success of the 53rd Credit Congress. However, I shall resist that temptation in order to permit Clarence Wolfinger, the General Chairman of the Congress, and Fred Schrop, the Convention Director, to acquaint each member with the plans, the innovations and the reports of progress.

Already, we are deeply indebted to a number of members, who have contributed ideas and suggestions dealing with the problems of such an undertaking. In closing, I repeat my previous cordial invitation to join with your fellow members in a constructive and entertaining series of meetings at the "World's Playground".

KNOW YOUR NATIONAL

Charles E. Fernald

President, National Association of Credit Men

NACM NEWS

About Credit Leaders ***Association Activities***

D. M. Messer Is New Director For Tenth District

San Francisco: D. M. Messer, Dohrmann Commercial Company, San Francisco, has been elected National Director for the tenth district to succeed E. M. Shapiro, who died on July 2nd.

Under the terms of the NACM by-laws, when a Director dies before his term expires, the other Directors, by a majority vote, must elect a successor who will hold office until the next convention.

Mr. Messer has been a member of the National Association of Credit Men for 25 years. His record of service with the Credit Managers' Association of Northern and Central California is a distinguished one. He has served on every committee; he has been Director, Vice-President, President and Councillor, and is now a member of the Advisory Board. He is also a Director of the San Francisco Board of Trade.

Calloway Honored by Controllers' Group

Chattanooga: C. Calloway, Jr., Treasurer of the Crystal Springs Bleachery, Chickamauga, Ga., has been elected President of the Chattanooga Control of the Controllers' Institute of America.

Mr. Calloway has served on the Board of Directors of the National Association of Credit Men, and was elected Central Division Vice-President at the golden anniversary convention held in New York in May, 1947.

100% to Creditors in Milwaukee Adjustment

Milwaukee: 100% to creditors was the payment made July 30th to creditors of the G & L Thread Rolling & Manufacturing Company. The case was handled by H. S. Garness of the Milwaukee Adjustment Bureau with creditor meetings beginning August 5th, 1947.

San Francisco: The members of the San Francisco Credit Women's Group adjourned to the offices of the Credit Managers' Association of Northern and Central California after their dinner meeting on September 15th to find out at first hand how a credit Association functions. Each department manager was present to show how his department works.

Second Session of Executives' School Meets at U. of Wisconsin

Carl D. Smith

Madison: A large and enthusiastic group of credit executives from sixty-odd firms in 26 states gathered at Slichter Hall, University of Wisconsin, for the second session of the Executives' School of Credit and Financial Management on August 22nd.

Founded only last year, the school demonstrated in its first session that it filled a real need on the part of credit and financial executives for an intensive course in the broader aspects of business administration. Thirty-one of last year's students returned for the second year course.

The students were all of executive rank and represented companies large and small. Some companies sent several members of their staffs.

Dr. Carl D. Smith, Director of Education, National Association of Credit Men, was again Executive Director of the school. Dr. Smith conducted a similar, though less restricted, course at Balson Institute of Business Adminstration, Wellesley, Mass., before the war. He was then President of Babson.

All of last year's faculty was in residence again, with the one exception of Dr. Vergil D. Reed, Associate Director of Research, J. Walter Thompson Advertising Agency. Dr. Reed was forced by pressure of work to refuse this year's invitation. However, Dr. Marshall D. Ketchum, of the University of Chicago, was again on hand to teach Financial Management I. Thomas H. Nelson again taught Business Administration, and Leland T. Hadley, Credit Manager of the Goodman Manufacturing Company, Chicago, handled Credit Management I.

To take Dr. Reed's hard to fill place, Dr. Smith was lucky enough to secure the services of Dr. Ira Anderson, Associate Professor of Marketing at Northwestern University.

The faculty for the second year course was a distinguished one. Credit Management II was entrusted to Gustav C. Klippel, Credit Manager of the Van Camp Hardware and Iron Company of Indianapolis, whose name is well known to all in the credit world. Teaching is nothing new to him, as he teaches a course in Credit Management every year at Butler University.

Financial Management II was taught by Dr. Jules I. Bogen, Professor of Finance at New York University and Editor of the New York *Journal of Commerce.* During his distinguished career Dr. Bogen has been technical adviser to the

(Continued on Next Page)

MEMBERSHIP PROGRESS REPORT
May 1, 1948 to August 31, 1948
Comparison

CLASS AA	Net Gain	Total 8/31/48	Percent.
San Francisco	34	1268	102.75
Louisville	14	1213	101.16
Chicago	21	1956	101.08
CLASS A			
Rochester	32	589	105.74
St. Louis	41	794	105.44
Boston	17	547	103.20
CLASS B			
San Diego	14	375	103.87
Milwaukee	12	364	103.41
Atlanta	6	257	102.39
CLASS C			
Honolulu	12	208	106.12
Houston	9	235	103.98
Lexington	9	244	103.82
CLASS D			
El Paso	19	140	115.70
Washington	13	150	109.48
Syracuse	11	183	106.39
CLASS E			
Little Rock	12	59	125.53
Phoenix	11	81	115.71
Charlotte	7	64	112.28
CLASS F			
Parkesburg	2	24	109.09
Jackson	1	21	105.00
Quincy	1	27	103.84

Aerial View of the University of Wisconsin campus at Madison.

Senate sub-committee on banking and currency, former vice-president of the American Management Association and author of several definitive works in the field of finance.

Dick Carlson, partner in the management consultation firm of Rogers and Slade, joined his partner, Thomas H. Nelson. Mr. Carlson's subject was the development of executive abilities. He is a former president of the Society for Personnel Administration; director of personnel for the Farm Credit Administration, the Civil Aeronautics Authority and the Federal Communications Commission. He has lectured at George Washington University and at the University of California and was a pioneer in the development of techniques for appraising and improving the performance of executives, supervisors and employees.

The fourth member of the second year faculty was Dr. Arthur R. Upgren, himself a graduate of the University of Wis-

View of the shore of Lake Mendota showing the University piers.

consin. Dr. Upgren now combines the positions of Professor of Economics at the University of Minnesota and Associate Editor of the Minneapolis *Star-Journal*. He is a former vice-president of the Federal Reserve Bank of Minneapolis and chief of the National Economics Unit, Department of Commerce. His subject was the economics of money and credit.

The weather was up to its little tricks again. Last year's school was held during the hottest and (according to the Madison Chamber of Commerce) most unusually unseasonable two weeks in the Chamber's memory, which is not particularly good at remembering "unusual" weather. This year the entire country, not just Madison, was in the grip of a fiendish heat wave, weather particularly unsuited to violent cerebration, but there is something about the students at these schools which seems to enable them to work hard and enthusiastically in spite of poisonous weather conditions.

In fact both student bodies have demonstrated in definite fashion that they did not come to Wisconsin for the ride. Last year's and again this year's registrants proved themselves to be what they were supposed to be—executives, serious, seasoned executives who had come to Madison with a purpose, to pick up ideas and facts, to plug up the holes in their mental grasp of business in general and credit management in particular.

And it was not unexpected. NACM conventions have a reputation among hotel men as being gatherings which could start and finish without the delegates wrecking the hotels. In the same way the Executives' School of Credit and Financial Management has already acquired a reputation as being the school without any disciplinary problems for the University authorities.

The niche in the educational world which this school has already carved out for itself is a permanent one. The fact that it has demonstrated its worth in the space of two short sessions is both astonishing and praiseworthy. Next year, when the full three-year course is in operation and the first students receive their diplomas, Dr. Smith will be able to look on his completed work and find it very good.

Space does not permit the inclusion of the names of all the students. However, here is a list of the second year registrants and the firms they represent.

Michael Archer, Coastal Oil Co., Newark, N. J.

"Gurney, must you bring the office home with you every night?"

FIRES ARE INFLATIONARY!

The fact that you carry insurance, and will be indemnified for any loss covered by your insurance contract, does not eliminate the economic waste which results whenever property is destroyed. True, such property can be replaced but it can never be restored. Moreover, $1,330 a minute or $79,800 an hour or $1,915,000 a day seems to be a reckless waste of our economic wealth, particularly at a time when every guidepost points to the need for careful conservation of our economic resources.

—John A. North, Vice-President, Phoenix Insurance Company, in the March, 1948, issue of CREDIT AND FINANCIAL MANAGEMENT.

Paul C. Baichly, Jr., Ralston-Purina Co., St. Louis, Mo.

Stearns N. Belden, Seymour Packing Co., Topeka, Kas.

E. T. Carlson, Johnson & Johnson, Chicago, Ill.

William M. Church, Paul F. Beich Co., Bloomington, Ill.

Wilkes P. Covey, Northrup, King & Co., Minneapolis, Minn.

John J. Corbett, Farwell, Ozmun, Kirk & Co., St. Paul, Minn.

Orrin E. Barnum, Carnegie-Illinois Steel Corp., Pittsburgh, Pa.

C. E. Ericson, Zapon Div., Atlas Powder Co., North Chicago, Ill.

E. H. Figush, Grabler Manufacturing Co., Cleveland, O.

Robert H. Franz, Aluminum Goods Mfg. Co., Manitowoc., Wis.

Reinald I. Hardy, Cans Inc., Chicago, Ill.

Ellis Heath, Vol T. Blacknall Co., Atlanta, Ga.

David H. Hotchkiss, Petrequin Paper Co., Cleveland, O.

Searcy H. Johnson, Jr., Moore-Handley Hardware Co., Birmingham, Ala.

Robert W. Johnstone, Norton Co., Worcester, Mass.

Leo E. Jones, Arkansas Fuel Oil Co., Shreveport, La.

Lewis Loth, The Washburn Co., Worcester, Mass.

J. W. Marsteller, Allied Oil Co., Cleveland, O.

Richard E. McCormick, Wm. Iselin & Co., New York, N. Y.

Don F. Nickel, Don F. Nickel Equipment Co., Grand Rapids, Mich.

A. G. Prechtl, American Stove Co., Cleveland, O.

Churchill M. Simonson, Chicopee Mfg. Co., New Brunswick, N. J.

Granger H. Smith, Buhner Fertilizer Co., Seymour, Ind.

Stuart G. Steiner, Gulf Oil Corp., New York, N. Y.

John W. Stout, Warren Petroleum Corp., Tulsa, Okla.

Willard W. Thomas, Campus Sweater & Sportswear Co., Cleveland, O.

Henry S. Tholen, Elgin National Watch Co., Elgin, Ill.

George E. Tomberlin, Citizens and Southern Natl. Bank, Atlanta, Ga.

Robert E. Underwood, Carnegie-Illinois Steel Corp., Chicago, Ill.

John H. Vogel, Meinhard, Greeff & Co., New York, N. Y.

Wholesale and Retail Credit Men Join Forces In Arizona Capital

Phoenix: E. W. Langford, Secretary-Manager of the Wholesalers Credit Association of Arizona, resigned effective August 19th. He is succeeded by E. M. Holmes, Secretary-Manager of the Credit Bureau of Phoenix.

For the sake of efficient management use of office space the Wholesalers Credit Association of Arizona and the Credit Bureau of Phoenix have combined operations. However, the identity of the Wholesalers' group will be maintained.

Obituary

Philip Worth

Philip Worth, Des Moines Incubator Company, died on July 15th in Des Moines, Iowa. He had just finished a two-year term as a member of the Board of Directors of the Central Iowa Association.

SPECIAL EVENTS

1948–1949

Conferences	1948		
	20–22	Secretary-Managers Conference, Eastern and Central Divisions	St. Louis, Mo.
	23–25	Southwestern Credit Conference	San Antonio, Tex.
October	4– 5	Southeastern Conference	New Orleans, La.
	8– 9	Tri-State Conference	Kansas City, Mo.
	15–16	Ohio Valley Regional Conference	Toledo, Ohio
	20	Illinois State Conference	Chicago, Ill.
	21–22	Tri-State Conference	Des Moines, Iowa
	25	Wisconsin-Upper Michigan Conference	Milwaukee, Wisc.
	28–30	Tri-State Conference	Buffalo, N. Y.
	28–30	New England Conference	Bridgeport, Conn.
November	15–17	Annual Petroleum Conference	New Orleans, La.
	1949		
March	16–18	Northwest Conference	Vancouver, B. C.
National Board Meeting			
November	8–10	Roosevelt Hotel	New Orleans, La.
Credit Congress			
	1949		
May	15–19	Ambassador Hotel	Atlantic City, N. J.

Speaking Confidentially—

At Cicero, Ill., **J. Healy,** has been elected Treasurer, Thor Corporation. . . . **Dell Moore,** Penn-Dixie Cement Corp., Des Moines, Iowa, has had his arm in a sling, resulting from an accident on his farm. . . . Cincinnati's past President **Jos. Schoenberger** (Beau Brummel Ties, Inc.) had the misfortune of breaking a bone in his ankle and in his knee. . . . **J. L. McMurchy,** for many years at the Cincinnati office of H. J. Heinz Company, has been transferred to the Atlanta, Ga. office.

Geo. E. Hallett, Tung-Sol Lamp Works, Inc., Newark, N. J., was elected a Vice-President of the newly organized Newark Chapter of The Controllers Institute of America. . . . **Edward R. Baines** has been elected Vice-President, and Henry L. Junge, Controller, of The Underwood Corporation, in New York City. . . . **James A. Butler** has been named Treasurer of The Falk Corporation, Milwaukee, Wisc. . . . **Carl Dwight,** Schramm & Schmieg Company, Burlington, Iowa is back at his desk after an illness. . . . **Hugh Moffett,** J. C. White Concrete Company, Des Moines, Iowa, was recently confined by illness at the Methodist Hospital.

Harold M. Lawson, Treasurer, Salada Tea Company, Boston, Mass., will head the Community Chest Drive in Needham, Mass. . . . **Henry P. Dolan** has been elected Treasurer of the Wright Aeronautical Corporation division of Curtiss-Wright Corporation, Wood-Ridge, N. J. . . . **J. Herbert Carson** is now Treasurer of the Leslie Salt Company, of San Francisco. . . . **David R. Anderson** in now the Treasurer of the W. B. Saunders Company, Philadelphia, Pa.

Harold L. Peterson is the new Credit Manager of The National Company in Omaha. . . . **Miss Janet Miller,** Searle Petroleum Company, Omaha, is recovering at her home after a recent operation. . . . **Otto Smolik,** Stock Yards National Bank, Omaha, is recovering nicely from a fractured ankle. . . . Condolences to **Samuel A. Commons,** Past President, Detroit, Michigan, Association, in the passing away of his wife.

Mr. Harvey H. Dunn succeeds E. H. Cook, retired as Credit Manager of Jones & Laughlin Steel Service, Inc., New York City. . . . **James H. Dodson** succeeds Miss Frances Kanter, retired, as Credit Manager of Dr. A. Posner Shoes, Inc., New York City. . . . We regret to note the death of **Wm. W. Stewart,** Treasurer, Southeastern Cottons, Inc., New York City. **Mr. V. E. Josephson,** Assistant Secretary, takes over the representation in the Association. . . . **R. A. L. Bentley** succeeds Arnett R. Shaw as Credit Manager of The Pantasote Company, Passaic, N. J. . . . **A. J. Craig** succeeds George E. Pierson as Assistant Treasurer of The Phelps Dodge Copper Products Corporation in New York City.

Miss Jeanne Deutsch takes over the credit management of Townley Frocks, Inc., New York City. . . . **Mr. E. B. Young** now Credit Manager of Winthrop-Stearns, Inc., New York City. . . . **J. Stranad** replaces Mr. Woods as Credit Manager of Titanium Pigment Corporation, New York City. . . . **F. E. Wentworth** replaces Mr. Melly as Secretary of the Ward Baking Company in New York City. . . . **Mr. H. Follmer** succeeds Mr. Maxson as District Credit Manager of Devoe & Reynolds Company in New York City. . . . **J. R. Kingan** replaces Mr. Chadeayne as Credit Manager of R. Hoe & Company, Inc., in New York City.

E. B. M.

Boston Institute Chapter to Hear Smith and Waters

The Boston Chapter of the National Institute of Credit will hold its first meeting of the 1948–1949 season on September 30th, at 6:00 p.m., at Perkins Hall, The Women's Educational and Industrial Union, Boston, Mass.

The Chapter will present as its speakers for the evening Dr. Carl D. Smith, Director of Education, National Association of Credit Men, who will speak on Education and Professional Advancement, and also Prof. John Waters, Evening College of Commerce, Boston University.

The 1948–1949 educational program of the Boston Chapter of the National Institute of Credit is already under way for the Boston Chapter members interested in taking a course in credit and collections. The classes are to begin early in September at Boston University and the University has issued bulletins to this effect.

Pittsburgh Credit Men To Sponsor Series Of Lectures on Exporting

Pittsburgh: The Credit Association of Western Pennsylvania is cooperating with the Pittsburgh Chamber of Commerce in sponsoring a series of lectures to be given later in the year on the factors to be considered in organizing and conducting an export business.

The cooperation of the University of Pittsburgh has been secured and the lectures will take place at the University's Cathedral of Learning.

News of the Credit Women's Groups

New Orleans: During the Southeastern conference, to be held in New Orleans in October, the Credit Women's Group of New Orleans will entertain the visiting Credit Women at a breakfast.

Irene Lamm, of the New Orleans Group, won the prize for suggesting the best theme for the conference.

Milwaukee: The wholesale credit women of the midwest will hold a conference at Milwaukee October 15, 16 and 17. The Milwaukee Wholesale Credit Women's Group of Milwaukee will be hostesses. The program includes informal entertainment on Friday evening, October 15, a luncheon and banquet on Saturday, October 16, and brunch on Sunday Morning, October 17.

Atlanta: The Atlanta Credit Women's group was presented with a scholarship at the Cleveland Convention. To this scholarship the Atlanta group added two more, which were presented to three selected members by the Education Committee at the August meeting. The three members will attend the class in Credit Management Problems conducted by Dr. Lloyd B. Raisty of the Federal Reserve Bank.

Omaha: The annual picnic of the Omaha Association of Credit Men was hailed as a grand success. Games were enjoyed by everyone.

Miss Muriel Williams of Birmingham, recently appointed to the Executive Committee of the National Association accepted an invitation to be the speaker at the September meeting of The Wholesale Credit Group. A reception on Sunday afternoon, September 12th was planned for our distinguished guest.

Louisville: At the last business meeting the Louisville Credit Women's Group elected the following officers to serve for the coming year:

President: Marie Grieshaber, Meffert Office Equipment Co.

Vice President: Antoinette J. Schweitzer, Gould-Levy Co., Inc.

Secretary: Lenore Lyon, Scheirich Manufacturing Co.

Treasurer: Margaret Allen, Federal Reserve Bank.

The Credit Women's Group enjoyed the outing at French Lick Springs Hotel sponsored by the Louisville Credit Men's Association during July.

The annual summer picnic of the Group was held in August and "a good time was had by all."

Business meetings will be resumed in September and we are looking forward to a successful year.

Omaha: The Omaha Credit Women's Group held their annual picnic on August 12th at Benson Park.

Robert P. Dean Now Credit Coordinator of Esso Standard

New York: Appointment of Robert P. Dean as credit coordinator in the Marketing Department of Esso Standard Oil Company was announced recently by Leonard E. Ulrope, vice president in charge of marketing.

Mr. Dean joined the company in 1930 as credit manager in the Pittsburgh branch of Esso Standard Oil Company of Pennsylvania. Named credit manager for that company at Philadelphia in 1932, he transferred to New York as assistant credit coordinator in 1946.

He is chairman of the Board of Governors of the National Credit Interchange System of the National Association of Credit Men, former officer and director of the Credit Men's Association of Eastern Pennsylvania and past president of the American Petroleum Credit Association.

$709,839,000 Lost in Fires Since June 1947

Fires nearly all of which could have been prevented by simple acts of caution, cost the nation $54,706,000 in property loss during June, latest month for which figures are available.

This was an increase of 7.6 per cent over June, 1947, indicating that fire losses are still going up. After slight decrease in April, the upward trend was resumed in May.

June's fire losses bring the total for the 12-month period ending June 30 to a record breaking $709,839,000, the greatest destruction ever recorded in a 12-month period in U. S. history.

For the first six months of 1948, fire waste in the U. S. totalled $386,480,000, which exceeds by several million dollars the fire loss for the entire year of 1943. The 1943 loss was $380,235,000.

"It's lovely, my dear. I bought one just like it for my little sister's doll"

Second Chapter Sponsored by St. Louis Group

St. Louis: The August issue of Credit and Financial Management carries a story of the establishment of a chapter of the St. Louis Association of Credit Men at Hannibal, Mo. Now comes word of another chapter, this time at Cape Girardeau, a clean, thriving city of 20,000 on the banks of the Mississippi. Cape Girardeau is 131 miles south of St. Louis and 174 miles north of Memphis, Tenn. Three cities, Cape Girardeau, Jackson and Sikestown participate in the activities of the chapter.

Officers of the new chapter are J. H. Logan, Moon Distributing Company, President; B. L. Crenshaw, Crenshaw Distributing Company, Vice-President, and P. J. Spitzmiller, Missourian Printing & Stationery Company, Secretary.

C. C. Rickhoff Back On The Job After Accident

Des Moines: C. C. Rickhoff, Rath Packing Company, who was involved in a serious automobile accident while returning home from the 52nd annual convention last May, is now back on the job. Mrs. Rickhoff, who sustained serious injuries in the same accident will unfortunately be confined to hospital for some time to come.

Contributors to this publication often find that the results of their labors have appeared in other publications which would not be expected to display any particular interest in Credit.

The latest example is Mr. G. J. Bush, Credit Manager, Vickers, Inc., Detroit, who wrote an article, "Salesmen should study credit", which appeared in the March issue of Credit and Financial Management. This article was reprinted in the July issue of Construction Equipment News.

Los Angeles Holds Pageant of Industry

Los Angeles: As usual the annual Industry Credit Group Night was one of the season's outstanding events. The delightful weather contributed to the evening, permitting the serving of liquid refreshments in the patio.

After an enjoyable steak dinner served in the inimitable Breakfast Club manner, Chairman Bill Gaster opened the ceremonies by introducing President Holden McManigal. He presented the President's Cup, the annual group membership award trophy to this year's winner, the Electric Group.

The big event of the evening—the Pageant of Industry—was then presented with our Secretary Art Johnson acting as M. C. Ten lovely young ladies, representing various groups and costumed to indicate the products, were introduced. The contestants were all charmingly garbed and it was evident that a great deal of thought had been given to the ingenious presentation of the industrial products.

Toledo: The Toledo Association of Credit Men's Program Committee announces that its entire monthly meeting programs have been arranged, the dates set and the speakers secured.

Speakers include such well-known businessmen as J. M. Buckelew, General Credit Manager of the Florsheim Shoe Co., Chicago, National Director Victor C. Eggerding, Gaylord Container Corp., St. Louis, and E. B. Moran, Manager, Central Division, National Association of Credit Men.

Secretaries To Hold Conference At St. Louis

St. Louis: Secretary-Managers of credit Associations in the Eastern and Central divisions of the National Association of Credit Men will hold a conference at the Hotel Sheraton-Coronado September 20-22. The program consists of a discussion of methods and problems of Association management, as well as the program and policies of the National Association.

Typical of the questions to be discussed are:

How should Association committees be organized and made to function effectively?

Should local boards be large, or small, or in proportion to the membership? How often should they meet?

By whom and by what process are local bulletins published?

Each subject will be treated by a panel of three Secretaries, and then discussed generally by all present.

C. E. Wolfinger Honored By Retail Credit Men

Philadelphia: Clarence E. Wolfinger, Lit Bros., Councillor of the Credit Men's Association of Eastern Pennsylvania, was elected Second Vice-President of the National Retail Credit Association at the Annual Meeting held at Banff Springs Hotel, Alberta, on June 10th.

Uncle Sam's Payroll Year by Year

[This table of Federal employment by years represents the best and most complete figures on this subject available to the Joint Committee on Reduction of Nonessential Federal Expenditures. It is included in this report, the final monthly report on Federal personnel by the Joint Committee for fiscal year 1948, in response to numerous requests for historical information on the growth of Federal employment. It will be noted that the earliest year included is 1884. The Civil Service Commission advises that Federal employment information prior to this date cannot be calculated accurately from its records, which were established as of this date. It should be noted further that the basis for calculations has been changed from time to time. For this reason those making use of the table should check the footnotes closely.]

EMPLOYMENT BY YEARS, 1884–1929, AS OF THE END OF THE FISCAL YEAR, JUNE 30 (Exceptions Noted)

Year	Employees	Year	Employees	Year	Employees	Year	Employees	Year	Employees
1884	131,308	1905	300,615	1916	480,327	1927	527,228	1938	[5] 834,022
1891	[1] 166,000	1906	326,855	1917	517,805	1928	540,867	1939	884,556
1892	[1] 171,000	1907	337,751	1918	[2] 917,760	1929	557,169	1940	953,895
1893	[1] 176,000	1908	352,104	1919	842,214	1930	[4] 583,066	1941	[6] 1,164,463
1894	[1] 180,000	1909	367,794	1920	[3] 691,116	1931	594,305	1942	1,723,459
1895	[1] 189,000	1910	384,088	1921	[3] 562,252	1932	583,919	1943	2,795,608
1897	[1] 192,000	1911	391,350	1922	527,517	1933	575,128	1944	[7] 3,121,153
1899	[1] 208,000	1912	395,460	1923	515,772	1934	625,226	1945	3,465,420
1901	[1] 256,000	1913	469,879	1924	521,641	1935	715,981	1946	3,110,989
1903	[1] 301,000	1914	482,721	1925	532,798	1936	825,063	1947	2,334,208
1904	298,858	1915	476,363	1926	528,542	1937	859,668	1948	2,032,600

[1] Approximate.
[2] Nov. 11, 1919; partially estimated.
[3] As of July 31.
[4] Basis of compilation (fiscal years 1930–37): Number of persons having Federal appointments in the last day of each month (revised).
[5] Basis of compilation (fiscal year 1938 to January 1941): Number of civilian employees actually receiving pay on the last pay roll of each month (revised).
[6] Basis of compilation (January 1941 to September 1943): CSC form 3257, number of paid civilian employees as of last day of each month.
[7] Basis of compilation (September 1943 to fiscal year 1948): Monthly personnel report to Joint Committee on Reduction of Nonessential Federal Expenditures; number of civilian employees as of the last day of each month.

Sources: 1884–1929: U. S. Civil Service Commission employment figures as of the last of the fiscal year. (See footnotes for exceptions.)
1930–1943: U. S. Civil Service Commission average employment figures, compiled from monthly personnel reports as of the end of each month (revised).
1944–48: Joint Committee on Reduction of Nonessential Federal Expenditures average employment figures, compiled from monthly personnel reports as of the last day of each month.

HASTY JUDGMENT

(Reprinted from the St. Louis *Post-Democrat*)

Half of the American voters are ignorant of the merits of the capitalist system because their economic experience goes back no farther than the depression years, Victor C. Eggerding, credit manager of the Gaylord Container Corporation, said in a recent address.

Suppose we see how right he is. As an experiment, let the oldsters blot from their memories all that happened prior to 1930 and base their economics philosophy on subsequent events, just as millions of younger people are doing today.

In the beginning of his experience, the free enterprise system fell flat—of its own weight and greed, according to the 1930–1932 political propaganda.

Millions of persons were unemployed and hungry. The government instituted relief measures and fed them, thereby proving the government the most dependable source of well-being.

The spending to support an artificial recovery went on, federal economists argued convincingly to justify deficit financing, a soak-the-rich tax program enabled the common man to enjoy pump-priming without pain, and there emerged a clear, though unwritten, government policy that the mass of voters will never be allowed to suffer undue hardship.

Then the lush war production jobs took over the recovery. Incomes zoomed. Taxes filtered down to the rank-and-file, but were extracted painlessly and were trifling compared to the new affluence. Private spending, sales and prices jumped to the limit of supplies and OPA ceilings. And when the latter were removed, new wage boosts sent prices far ahead of higher production.

Today the assumption of a permanent loafers-shan't-starve philosophy in Washington is further encouraged by government fear of the labor unions, administration approval of higher pay without corresponding output to keep ahead of prices, general congressional approval of some minimum wage level, and larger social security and unemployment benefits.

Beyond that is the manifest reluctance of both parties to trim substantially the farm support prices, the insistence on maintaining the hoax that these are not responsible for stratospheric food costs, and the willingness to return to deficit financing at the expense of industry, the provider of jobs, and the enterpreneurs and higher income classes.

In such an atmosphere and against only an 18-year background, is it surprising that thrift appears downright silly to so many younger persons? Save? Work harder? Why? Just to pay more taxes? The government will never let the "little man" down. Buy now, before prices go higher; there will always be a floor under poverty. The government can always spend. The national debt is just some money we owe ourselves.

Aside from the national menace of such thinking, there is potential individual tragedy in the fact that so many young Americans do not realize they are judging on the basis of less than the whole of the recurring four-phase business cycle, normally consisting of prosperity-or-inflation, deflation, depression-or-panic, and recovery. And there is no historical evidence that any of these phases can be avoided. Until they witness an entire cycle completed free of "intellectual" interference and artificial stimulants, these youngsters are in no position to pass competent judgment on the capitalistic system.

"And don't think you can slip anything over on me, Smith. I used to be a little stinker, myself"

So You're Busy? Short of Time? Listen to This!

Any local president who finds any members resisting the idea of serving on a committee might wave this in front of them.

National Director Victor C. Eggerding recently made a speech over station KXOX, St. Louis, on behalf of Rep. Walter C. Ploeser. The *Kiwanis Weekly*, organ of the Downtown Kiwanis Club of St. Louis, making note of the fact, listed the civic, and other, activities of our Board member from the sixth district and they are, indeed, legion.

Aside from his activities on the National Board and in the St. Louis Association of Credit Men, Mr. Eggerding is a member of the program committee of the Downtown Kiwanis Club. (He was Treasurer last year.) He serves on the Board of Directors of the Metropolitan YMCA and is Chairman of its industrial committee. He is a member of the central budget and policy committee of the Community Chest. He is President of the Lutheran Orphan's Home and a Director of radio station KFUO. He is one of the organizers of the "Plus 500" Club which has brought in over 600 new members each year to the St. Louis Chamber of Commerce, and is a member of the Chamber's public affairs committee. He is a Director of the St. Louis Red Cross and of the South Broadway Manufacturers and Merchants Association. He had to work at night for seven years to get his law degree and he has to earn a living, which he does as General Credit Manager of the Gaylord Container Corporation.

All this adds up to quite a piece of activity. We would be interested to hear if anyone can top it.

Relief, Rehabilitation or Ruin (*Continued from Page 13*)

for the time being, from some creditor or creditors with legal process in hand. Under the Chandler Act there are for the ordinary mercantile enterprise two grounds upon which relief is sought in the Bankruptcy court. First, individuals, partnerships and corporations (in which there is no readjustments of secured indebtedness proposed) may proceed under Chapter XI, and here an "arrangement" can be worked out. Under Chapter X, only corporations with complex capital structures and secured in-

debtedness needing adjustment, can find a way.

Regardless then, as to whether the relief measures are to be taken outside of, or in, court, the four sides of these problems which must be given a full analysis are those pertaining to accounting, market research, financing and law. A short comment on each one of these special techniques is in order.

Accounting: A special type of audit is necessary to bring out two main revelations: first, the audit which will be in the nature of a short, historical narrative as to the former prosperity (if such be the case) and the causes leading to the present deplorable conditions; secondly, a forecost of cash needed and a budget geared to operations which will in the future, be profitable. This contemplates any necessary cuts in costs, the minimum of sales needed to maintain a break-even point or a profit.

Market research: Many businesses are retrograding because of a dying market for the product manufactured and distributed. We live in a fast-changing world. Business executives are sometimes not alert to note a creeping obsolescence of their product. Administrative officers of businesses have a serious responsibility in this connection. And too frequently, reorganizations are completed on the accounting, financial and legal side, without sufficient treatment of the market side.

Financial: Financing may come from a number of sources, i.e loans, new credit plus a freezing of old debts, sale of stock, bonds. This is generally the most difficult part of reorganization.

Law: The lawyer is needed to draw extension agreements, compromises, plans of arrangement, to meet with the requirements of statutes, blue sky laws.

If a creditor can be satisfied that his debtor is being rehabilitated from these four sides and being willing to accept the recommendations of others who have studied the diagnosis and the prognosis of the case, he ought much more be willing to co-operate in the debtor's recovery than to seek a liquidation, especially if we are headed toward a liquidation period.

When The Boom Is Over

(Continued from Page 16)

mental in seeing that the job is well done.

Nevertheless, only the future knows and holds the answer if another war is imminent. In the meantime it is our responsibility as credit executives to meet the challenge of present day economic problems as we find them and as they affect credit policy and management, and then perform our job well.

Thus far, I have outlined in brief some of the important problems which either directly or indirectly are at work and are affecting business and credit. Now let us get down to the application of them as they affect our own receivables and sales volume.

One of our basic duties is to prevent loss on accounts receivable, and I was startled, to say the least, to read in the *Wall Street Journal* of April 16th that commercial failures are running 80% above the 1947 rate. The iron and steel classification is up 115.7% of the 1947 rate, and the machinery classification is up 141.5%. It was interesting to observe that the causes of failure had a familiar sound such as lack of capital, inexperience and severe competition. Mr. James Cox, Executive Manager of the Chicago Association of Credit Men, when interviewed by the *Journal,* gave his reasons for staying out of the bankruptcy court and he called them 'the 5 C's.' Character—a manager's desire to do right; Capacity—know production, sales and finance; Capital—plenty of working cash; Conditions—favorable and not beyond management control; Coverage—adequate insurance against fire, explosion, theft or other loss. In all failures at least one of these 5 is not operating, Mr. Cox states.

History has a habit of repeating itself, and I hope that our industries can meet the challenge of rising commercial insolvencies that appear to be ahead of us. The Bureau of Census of the Department of Commerce prepares monthly wholesale trade reports. One of these reports is called, 'Wholesalers Sales and Inventories, by Kinds of Business'. The February report released on April 2, 1948, disclosed that inventories have been building up faster than sales.

Along with these two computations the report gives what is known as the 'stock sales ratios'. The stock sales ratios are percentages derived by dividing stocks, at cost, by total sales including any direct shipments and consignment business for an identical group of firms. These ratios also give a valuable indication as to the trends of sales and their relation to inventory. Incidentally, this survey is a joint undertaking of the National Association of Credit Men and the Bureau of Census, and I believe it would be worth your time to have your name placed upon the mailing list and receive these bulletins regularly.

Are your credit files up to date? Have you kept them revised? And is the information current? You cannot expect to do a good job of credit management if you do not possess the tools to work with. Certainly in these times, with a rapidly changing economic picture, you cannot have too much information. The test of successful operation of any business today is its ability to meet its obligations according to terms. You have one credit instrument at your command in the form of Credit Interchange reports. On new customers who have been established only a year or two, I believe it would be worth your while to check these through Credit Interchange at least every four months. A boom in business is infectious; like a snowball it grows as it rolls along. Whether or not we are headed for a 'bust' depends largely on how you in your particular industry handle credits. If your credit extensions are based upon old and fragmentary information, you are contributing to one form of inflation which sooner or later will return to confront you. Corrections and readjustments are inevitable, and by skillful handling we can cushion the fall.